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Checklists and illustrative financial statements for life insurance companies : a financial accounting and reporting practice aid, December 1992 edition

American Institute of Certified Public Accountants. Technical Information Division

Steven F. Moliterno

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December 1992 Edition

**Checklists and Illustrative
Financial Statements for
Life Insurance Companies**
A FINANCIAL ACCOUNTING AND
REPORTING PRACTICE AID

AICPA

American Institute of Certified Public Accountants

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December 1992 Edition

Checklists and Illustrative Financial Statements for Life Insurance Companies

A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID

Edited by

**Steven Moliterno, CPA
Technical Manager
Technical Information Division**

Checklists and Illustrative Financial Statements for Life Insurance Companies has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

American Institute of Certified Public Accountants

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR LIFE INSURANCE COMPANIES

The checklists and illustrative financial statements were developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements were updated through SAS No. 71, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 109, FASB Interpretation No. 39, FASB Technical Bulletin No. 90-1, AICPA Statement of Position 92-8, the AICPA Industry Audit Guide Audits of Stock Life Insurance Companies, fifth edition, AICPA Practice Bulletin No. 9 and EITF consensuses adopted up to and including the July 23, 1992 Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standard should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover).

Susan Menelaides
Director
Technical Information Division

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR LIFE INSURANCE COMPANIES

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INTRODUCTION

Life insurance companies provide for the pooling of risks among many persons who are exposed to similar risks. The provisions of the AICPA Industry Audit Guide "Audits of Stock Life Insurance Companies" apply to stock life insurance companies. For mutual insurance companies, financial statements prepared on a statutory basis are considered, in practice, to be prepared in accordance with generally accepted accounting principles (GAAP). AICPA Professional Standards section 623.09 "Special Reports" states that "when reporting on financial statements prepared on a comprehensive basis of accounting other than GAAP, the auditor should consider whether the financial statements (including accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used." Section 623.10 states that when "the financial statements [prepared on an other comprehensive basis of accounting] contain items that are the same as, or similar to, those in financial statements prepared in conformity with GAAP, similar disclosures are appropriate." Therefore, the checklists and illustrative financial statements contained herein may apply to mutual life insurance companies. [The auditor should refer to Section 623, "Special Reports", Auditing interpretation 9623, "Evaluation of the Appropriateness of Informative Disclosures in Insurance Enterprises' Financial Statements Prepared on a Statutory Basis," and the National Association of Insurance Commissioners' (NAIC) Annual Statement instruction, "Annual Audited Financial Reports"]].

The following are common accounting and reporting practices by life insurance companies:

- Most life insurance companies maintain their general ledgers on a cash basis and convert to accrual basis of accounting for SAP and GAAP reporting.
- Insurance companies usually prepare non-classified balance sheets.
- The first item in the balance sheet is usually the company's investments rather than cash.
- The actuarial assumptions and estimates used to determine annual revenue and costs applicable to life insurance contracts are extremely significant and involve considerable judgment.
- The auditors' responsibility is to form a judgment as to the appropriateness of actuarial assumptions.
- Premium revenues are recognized as earned on a pro-rata basis over the contract period.
- The costs of acquiring new business are deferred and charged to operations in proportion to premium revenue.

Checklists—General

Many auditors and accountants find it helpful to use checklists as practice aids to prepare financial statements and reports. Some firms have developed their own checklists for internal use, and also may have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of checklists, nor does it prescribe their format or content, which may vary.

Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Statements of Position and EITF consensuses. Some checklists also include references to FASB Interpretations and Industry Audit Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used in this booklet is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be made on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements" and "in notes" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

Checklists generally are accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and likely may require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.

- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

If widespread circulation is expected, preparers generally also stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

Financial Statements and Notes Checklist

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

Explanation of References:

AC	=	Reference to section number in <u>FASB Accounting Standards - Current Text</u>
APB	=	Accounting Principles Board Opinion
ARB	=	Accounting Research Bulletin
AU	=	Reference to section number in <u>AICPA Professional Standards</u> (vol. 1) of SAS cited
FASBI	=	Financial Accounting Standards Board Interpretation
FTB	=	Technical Bulletin issued by the staff of the FASB ¹
AAG	=	AICPA Audit and Accounting Guide, <u>Audits of Stock Life Insurance Companies</u> , (volume 3, Audit and Accounting Guides)
NAIC	=	NAIC Accounting Practices and Procedures Manual for Life, Accident and Health Insurance Companies
PB	=	AICPA Practice Bulletin
REG S-X	=	SEC Regulation S-X
SAB	=	SEC Staff Accounting Bulletin
SAS	=	Statement on Auditing Standards
SFAS	=	Statement of Financial Accounting Standards
SOP	=	AICPA Statement of Position
EITF	=	Emerging Issues Task Force Consensus

Checklist Questionnaire

YES NO N/A

General

A. Titles and References

1. Are the financial statements suitably titled?
[SAS 62, par. 7 (AU 623.07)]
2. Does each statement include a general reference to the notes indicating that they are an

¹ The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
integral part of the financial statement presentation? [SAS 32, par. 2 (AU 431.02)]	—	—	—
B. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	—	—	—
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105); FTB 82-1, par. 7 (AC I25.506)]	—	—	—
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	—	—	—
4. For GAAP reporting purposes, are the following regulatory accounting practices avoided (not all-inclusive)? [NAIC, Introduction]			
a. Non-recognition of certain assets such as furniture and equipment.	—	—	—
b. Non-recognition of deferred taxes.	—	—	—
c. Use of NAIC prescribed values for the amount of goodwill and other intangible assets related to the carrying value of investments in subsidiaries.	—	—	—
d. Calculation of liability for reinsurance in unauthorized companies.	—	—	—
e. Calculation of a mandatory securities valuation reserve.	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. Are the separate financial statements of all consolidated and unconsolidated subsidiaries presented in conformity with GAAP? [SFAS 94, par. 13 (AC C51.102); AAG, par. 8.107]	—	—	—
6. Are the principles relating to the recognition of premium revenue and related expense disclosed? [AAG, par. 10.02]	—	—	—
C. Accounting Changes			
1. For all changes in accounting principle, are the following disclosures made in the year of change? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]			
a. Nature of the change.	—	—	—
b. Justification for the change.	—	—	—
c. Effect on income before extraordinary items and on net income.	—	—	—
d. Effect on related per share amounts.	—	—	—
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19-21, 25 (AC A06.115-.118 and .121)]	—	—	—
3. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	—	—	—
4. Are the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) considered to justify a change in accounting principle? [SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16; SFAS 83, pars. 5-6 (AC A06.112)]	—	—	—

YES NO N/A

5. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change?

[APB 20, par. 33 (AC A06.132)]

a. Effect on income before extraordinary items and on net income. _____

b. Effect on related per share amounts. _____

6. Is the correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction?

[APB 20, pars. 36-37 (AC A35.105)]

a. Nature of the error in previously issued financial statements. _____

b. Effect of its correction on income before extraordinary items, net income, and related per share amounts. _____

7. If interim financial data and disclosures are not separately reported for the fourth quarter, and an accounting change is made during the fourth quarter, is disclosure made in the year of change of:

[APB 28, par. 31; SFAS 3, par. 14 (AC I73 .147)]

a. The effect on the interim periods? _____

b. Cumulative effect? _____

D. Comparative Financial Statements

1. Have comparative statements been considered? _____

[ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102)]

2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance? _____

[ARB 43, Ch. 2A, par. 2 (AC F43.102)]

3. If changes have occurred in the manner of or basis for presenting corresponding items for

YES NO N/A

two or more periods, are appropriate explanations of the changes disclosed?
[ARB 43, Ch. 2A, par. 3 (AC F43.103)]

— — —

E. Business Combinations

1. If a business combination occurred during the period and met the specified conditions for a pooling of interests:
[APB 16, pars. 45-48 (AC B50.104-.107)]

a. Was the required accounting method applied?
[APB 16, pars. 50-62 (AC B50.109-.121)]

— — —

b. Do the statements and notes include the required disclosures?
[APB 16, pars. 63-65 (AC B50.122-.124)]

— — —

2. If a business combination does not meet the specified conditions for a pooling of interests:

a. Was the combination accounted for by the purchase method?
[APB 16, pars. 66-94; SFAS 96, pars. 23 and 205c (AC B50.125-.147A and .159-.163); SFAS 38 (AC B50.148-.150 and .166); FASBI 9, pars. 4-7 (AC B50.155-.157)]

— — —

b. Do the statements and notes include the required disclosures?
[APB 16, pars. 95-96 (AC B50.164-.165)]

— — —

c. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed?
[SFAS 72, par. 11 (AC B50.158F)]

— — —

3. Has any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or to other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC Section I27.129 and .135) been disclosed?
[SFAS 109, par. 48 (AC I27.147)]

— — —

YES NO N/A

4. Where the entity has purchased an enterprise, and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, if the subsidiary has not yet been disposed, has the disclosure guidance in EITF 90-6, if applicable, been followed?
[EITF 90-6]

— — —

F. Consolidations

1. If consolidated statements are presented:

- a. Is the consolidation policy disclosed?
[ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]

— — —

- b. Are intercompany balances and transactions eliminated?
[ARB 51, par. 6 (AC C51.109)]

— — —

2. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed?
[SFAS 12, par. 20 (AC I89.114)]

— — —

G. Related-Party Transactions and Economic Dependency

1. For related-party transactions, do disclosures include:

- a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?
[SFAS 57, par. 2 (AC R36.102)]

— — —

- b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which an income statement is presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?
[SFAS 57, par. 2 (AC R36.102)]

— — —

YES NO N/A

- | | |
|--|------------------|
| <p>c. The dollar amounts of transactions for each of the periods for which an income statement is presented and the effects of any change in the method of establishing the terms from that used in the preceding period?
[SFAS 57, par. 2 (AC R36.102)]</p> | <p>— — —</p> |
| <p>d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement?
[SFAS 57, par. 2 (AC R36.102)]</p> | <p>— — —</p> |
| <p>e. The amount of current and deferred tax expense disclosed for each of the periods for which an income statement is presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented if the entity is part of a group that files a consolidated tax return?</p> <p style="padding-left: 40px;">(1) The principal provisions of the method in which current and deferred tax expense is allocated to members of the group, and the nature and effect of any changes in the method, disclosed for each of the periods for which income statements are presented if part of a group that files a consolidated tax return?
[SFAS 96, par. 30 (AC I25.129)]</p> | <p>— — —</p> |
| <p>2. Is information about economic dependency disclosed when necessary for a fair presentation?
[SFAS 21, par. 9 (AC S20.103)]</p> | <p>— — —</p> |
| <p>3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of the control could result in operating results or financial position of the reporting enterprise being significantly different from those that would have been obtained if the enterprise were autonomous?
[SFAS 57, par. 4 (AC R36.104)]</p> | <p>— — —</p> |

H. Financial Instruments

1. For financial instruments with off-balance-sheet risk (except for certain financial instruments specifically exempted by the SFAS 105 [AC F25]), are the following disclosed,² either in the body of the financial statements or in the notes, by class of financial instrument?³

[SFAS 105, par. 17 (AC F25.112)]

- a. The face or contract amount (or notional principal amount if there is no face or contract amount).

___ ___ ___

- b. The nature and terms, including, at a minimum, a discussion of:

- (1) The credit and market risk of those instruments.

___ ___ ___

- (2) The cash requirements of those instruments.

___ ___ ___

- (3) The related accounting policy pursuant to the requirements of APB 22 [AC A10].

___ ___ ___

2. For financial instruments with off-balance sheet risk (except as noted in Step H.1.), are the following disclosed either in the body of the financial statements or in the notes by class of financial instrument?

[SFAS 105, par. 18 (AC F25.113)]

- a. The amount of accounting loss the entity would incur if any party to the financial

² Note that the disclosures required by Steps H1., 2., and 3. are not applicable to insurance contracts, other than financial guarantees and investment contracts as defined in SFAS 60 and 97 [SFAS 105, par. 14 (AC F25.104)].

³ Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports, have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 [ACF 25] "class of financial instrument" refers to those classifications.

YES NO N/A

instrument failed completely to perform according to the terms of the contract, and if the collateral or other security, if any, for the amount due proved to be of no value to the entity.

- b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.

3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties include:

[SFAS 105, par. 20 (AC F25.115)]

- a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

- b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the entity?

- c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

4. Has the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) been disclosed either in

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
the body of the financial statements or in the accompanying notes? [SFAS 107, par 10 (AC F25.115C)]	—	—	—
5. Have the method(s) and significant assumptions used to estimate the fair value of financial instruments been disclosed? [SFAS 107, par 10 (AC F25.115c)]	—	—	—
6. If it is not practicable to estimate the fair market value of financial instruments, has the following been disclosed:			
a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?			
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par 14 (AC F25.115G)]	—	—	—
I. Foreign Currency			
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	—	—	—
2. Does analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose: [SFAS 52, par. 31 (AC F60.141)]			
a. Beginning and ending amount of cumulative translation adjustments?	—	—	—
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	—	—	—
c. The amount of income taxes for the period allocated to translation adjustments?	—	—	—
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale, or the complete or			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
substantially complete liquidation of an investment in a foreign entity?	___	___	___
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	___	___	___
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	___	___	___
5. Was disclosure of principal amounts of spot and forward exchange contracts considered? [SFAS 80 (AC F80)]	___	___	___
J. Nonmonetary Transactions			
1. Do disclosures for nonmonetary transactions during the period include: [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)]			
a. Nature of the transactions?	___	___	___
b. Basis of accounting for the assets transferred?	___	___	___
c. Gains or losses recognized on the transfers?	___	___	___
K. Contingencies and Commitments			
1. Are the nature and amount of accrued loss contingencies not related to life insurance disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	___	___	___
2. For loss contingencies not accrued, do disclosures indicate: [SFAS 5, par. 10 (AC C59.109 and .111)]			
a. Nature of the contingency?	___	___	___
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par.10 (AC C59.109-.111)]	___	___	___

YES NO N/A

3. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, guarantees to repurchase loans that have been sold)?

[SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]

— — —

4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization?

[SFAS 5, par. 17 (AC C59.118)]

— — —

5. Is there adequate disclosure of commitments such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans?

[SFAS 5, pars. 18-19 (AC C59.120)]

— — —

L. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date?

[SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, 560.07 and 561.01-.09 (AU 560.03-.04, 560.07 and 561.01-.09)]

— — —

2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading?

[SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); and SAS 1, secs. 560.05-.07, 560.09 and 561.01-.09 (AU 560.05-.07, 560.09 and 561.01-.09)]

— — —

M. Pension Plans

1. If there is a defined benefit plan, do disclosures include:

[SFAS 87, par. 54 (AC P16.150)]

- a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of signifi-

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
cant matters affecting comparability of information for all periods presented?	___	___	___
b. The amount of net periodic pension cost for the period, showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?	___	___	___
(1) The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:			
(a) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets).	___	___	___
(b) Amortization of the net gain or loss from earlier periods.	___	___	___
(c) Amortization of unrecognized prior service cost.	___	___	___
(d) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].	___	___	___
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately: [SFAS 87, par. 54 (AC P16.150)]			
(1) The fair value of plan assets?	___	___	___
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	___	___	___
(3) The amount of unrecognized prior service cost?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 (AC P16.129-.130) (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets? [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties? [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 [AC P16.135]? [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
2. If more than one defined benefit plan exists: [SFAS 87, par. 56 (AC P16.153)]			

YES NO N/A

- | | | | |
|--|-------------|-------------|-------------|
| <p>a. Have the required disclosures above been aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?</p> | <p>____</p> | <p>____</p> | <p>____</p> |
| <p>b. Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?</p> | <p>____</p> | <p>____</p> | <p>____</p> |
| <p>c. Are disclosures for plans outside the United States not combined with those for U.S. plans unless those plans use similar economic assumptions?</p> | <p>____</p> | <p>____</p> | <p>____</p> |
| <p>3. If there is a defined contribution plan, do disclosures include:</p> | | | |
| <p>a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?
[SFAS 87, par. 65 (AC P16.162)]</p> | <p>____</p> | <p>____</p> | <p>____</p> |
| <p>b. The amount of cost recognized during the period?
[SFAS 87, par. 65 (AC P16.162)]</p> | <p>____</p> | <p>____</p> | <p>____</p> |
| <p>4. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan and the substance of the plan is to provide a defined benefit, have the disclosures required for a defined benefit plan been made?
[SFAS 87, par. 66 (AC P16.163)]</p> | | | |
| <p>5. If there is a multiemployer plan, do disclosures include:</p> | | | |
| <p>a. A description of the multiemployer plan including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?
[SFAS 87, par. 69 (AC P16.166)]</p> | <p>____</p> | <p>____</p> | <p>____</p> |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	—	—	—
6. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, have the provisions of SFAS 5 (AC C59) been applied? [SFAS 87, par. 70 (AC P16.167)]	—	—	—
7. If there is a settlement or curtailment of a defined benefit pension plan, or termination benefits under such plan, do disclosures include: [SFAS 88, par. 17 (AC P16.187)]			
a. A description of the nature of the event?	—	—	—
b. The amount of gain or loss recognized?	—	—	—
8. If an enterprise terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, have the following been considered?			
For a defined contribution plan:			
a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?	—	—	—
b. Was the unallocated amount treated as if it were part of the employer's investment portfolio and recorded as an asset?	—	—	—
(1) Is the income attributed to such securities, including dividends, interest and realized gains and losses, reported in a manner consistent with the employer's reporting of similar items?	—	—	—

YES NO N/A

c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?

d. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements?

[EITF 86-27]

N. Postretirement Health Care and Life Insurance Benefits (See Exhibit A)

1. If there are one or more defined benefit postretirement plans, do disclosures include:

a. A description of the substantive plan that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan, and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?

b. The amount of net periodic postretirement benefit cost, showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
transition asset, and the net total of other components? ⁴	___	___	___
c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:			
1) The fair value of plan assets?	___	___	___
2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?	___	___	___
3) The amount of unrecognized prior service cost?	___	___	___
4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?	___	___	___
5) The amount of any remaining unrecognized transition obligation or transition asset?	___	___	___
6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?	___	___	___
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible changes) for the next year and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the			

⁴ The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 [AC P 40]. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
- b. Amortization of unrecognized prior service cost.
- c. Amortization of the net gain or loss from earlier periods.
- d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106 [AC P 40.156]).

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
ultimate trend rate(s) and when the rate is expected to be achieved?	___	___	___
e. The weighted-average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted-average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?	___	___	___
f. The effect of a one-percentage point increase in the assumed health care cost trend rates for each future year on:			
1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and	___	___	___
2) The accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based on the substantive plan that is the basis for the accounting)?	___	___	___
g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?	___	___	___
h. Any alternative amortization method used pursuant to paragraphs 53 or 60 of SFAS 106 [AC P40.148 or .155]?	___	___	___
i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event? [SFAS 106, par. 74 (ACP40.169)]	___	___	___
j. The cost of providing special or contractual termination benefits recognized			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
during the period and a description of the nature of the event? [SFAS 106, par. 74a-j (AC P40.169a-j)]	—	—	—
2. If more than one defined benefit post-retirement plan exists:			
a. Have the disclosures required by Step 1 been aggregated for all of an employer's single-employer defined benefit post-retirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step 1.c. the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed)? [SFAS 106, par. 77 (AC P40.172)]	—	—	—
b. Are plans that primarily provide post-retirement healthcare benefits and plans that primarily provide other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated post-retirement benefit obligation for all the plans? [SFAS 106, par. 78a (AC P40.173)]	—	—	—
c. Are plans inside the United States and plans outside the United States separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans? [SFAS 106, par. 78b (AC P40.173)]	—	—	—
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	—	—	—

YES NO N/A

- b. The amount of postretirement benefit cost recognized during the period, if available? Otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provide health and welfare benefits to both active employees and retirees should be disclosed.

[SFAS 106, par. 82a-b (AC P40.178)]

— — —

- c. Have the provisions of SFAS 5 [AC C59] been applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation and it is probable or reasonably possible that:

- 1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?

or

- 2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage?

[SFAS 106, par. 83 (AC P40.179)]

— — —

— — —

4. If there are one or more defined contribution postretirement plans, have the following items been disclosed separately from defined benefit postretirement plan disclosures:

- a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?

— — —

- b. The amount of cost recognized during the period?

[SFAS 106, par. 106 (AC P40.198)]

— — —

YES NO N/A

O. Futures Contracts

1. If a futures contract is designated a hedge:
[SFAS 80, par. 4 (AC F80.104 and .404)]
 - a. Does the item to be hedged expose the enterprise to price (or interest rate) risk? _____
 - b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? _____
2. If the futures contract hedges an anticipated transaction:
[SFAS 80, par. 9 (AC F80.109)]
 - a. Are the significant characteristics and expected terms of the anticipated transaction identified? _____
 - b. Is it probable that the anticipated transaction will occur? _____
3. If a futures contract is accounted for as a hedge, does the disclosure include:
[SFAS 80, par. 12 (AC F80.112)]
 - a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts? _____
 - b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? _____

P. Troubled Debt Restructurings

1. For troubled debt restructurings, are the following disclosed by major category of loans receivable for each balance sheet presented?
[SFAS 15, pars. 40-41 (AC D22.136-.137); FTBs 79-6 and 79-7 (AC D22.501-.505)]
 - a. Aggregate recorded investment. _____
 - b. Gross interest income that would have been recorded if loans had been current per _____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
their original terms and had been outstanding throughout the period or since origination.	_____	_____	_____
c. Amount of interest income included in net income.	_____	_____	_____
d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans.	_____	_____	_____
2. For loans sold with recourse, are the following disclosures made? [SFAS 77, par. 9 (AC R20.109)]			
a. For each period for which an income statement is presented, the amount of proceeds.	_____	_____	_____
b. At date of each balance sheet presented, balance of sold receivables that remains uncollected.	_____	_____	_____
Q. Lease Finance Receivables			
1. Do disclosures include: [SFAS 13, par. 23u (AC L10.119a)]			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented?	_____	_____	_____
2. Are leasing arrangements described? [SFAS 13, par. 23c (AC L10.119c); for amendments of SFAS 13 see SFASs 22, 23, 27, 28, 29, 76, 77, 91, 94, 96 and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see FTBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(R), 85-3, 86-2 and 88-1]	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41-47 (AC L10.143-.149)]	—	—	—
R. Valuation Allowances			
1. Are valuation reserves for losses anticipated on assets deducted from the assets to which they relate? [APB 12, par. 3 (AC V18.102); AAG, par. 8.116]	—	—	—
S. Other Matters			
1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24 (AC S20.109-.110); SFAS 30 (AC S20.145); and FTBs 79-4, 79-5 and 79-8 (AC S20.501-.507)]	—	—	—

YES NO N/A

Balance Sheet

A. Investment Securities

1. Are there separate captions for each of the following investment categories?

a. Fixed maturities. _____

b. Equity securities. _____

c. Mortgage loans on real estate. _____

d. Investment real estate. _____

e. Policy loans. _____

f. Other long-term investments. _____

g. Short-term investments. _____

2. Are bonds reported at amortized cost if the entity has both the ability and the intent to hold the bonds until maturity?
[SFAS 60, par. 45 (AC In6.151)] _____

3. Are bonds reported at market value if the entity is a trader in bonds?
[SFAS 60, par. 45 (AC In6.151)] _____

4. If bonds are reported at market value, are temporary changes in market value recognized as unrealized gains or losses and shown, net of applicable income taxes, as a separate component of stockholders' equity?
[SFAS 60, par. 50 (AC In6.156)] _____

5. Are common and nonredeemable preferred stocks reported at market value and temporary changes in market value recognized as unrealized gains and losses?
[SFAS 60, par. 46 (AC In6.152)] _____

6. Are redeemable preferred stocks reported at amortized cost if the entity has both the ability and the intent to hold them until redemption and there is no decline in the market value other than a temporary decline?
[SFAS 60, par. 46 (AC In6.152)] _____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. Are mortgage loans that were acquired at par value reported at outstanding principal balances? [SFAS 60, par. 47 (AC In6.153)]	—	—	—
8. Are mortgage loans that were purchased at a discount or premium reported at amortized cost with an allowance for uncollectible amounts, if any? [SFAS 60, par. 47 (AC In6.153)]	—	—	—
9. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported in realized gains and losses? [SFAS 60, par. 47 (AC In6.153)]	—	—	—
10. Are real estate investments reported at cost less accumulated depreciation and an allowance for any impairment in value? [SFAS 60, par. 48 (AC In6.154)]	—	—	—
11. Are changes in the allowance for any impairment in value relating to real estate investments included in realized gains and losses? [SFAS 60, par. 48 (AC In6.154)]	—	—	—
12. Has the entity included an explanation of its accounting policies for debt securities held, including the basis for classification into balance sheet captions, such as investment or trading? [SOP 90-11, par. 8]	—	—	—
13. For each balance sheet presented, has the entity disclosed the amortized cost, estimated market values, gross unrealized gains, gross unrealized losses, and proceeds from sales along with the related gross realized gains and losses for each of the following categories of debt securities? [SOP 90-11, par. 9]			
a. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies.	—	—	—
b. Debt securities issued by states of the U.S. and political subdivisions of the states.	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. Debt securities issued by foreign governments and not classified as loans.	___	___	___
d. Corporate securities.	___	___	___
e. Mortgage-backed securities.	___	___	___
f. Other debt securities.	___	___	___
14. For the most recent balance sheet, has the entity disclosed the amortized cost and estimated market values of debt securities due: [SOP 90-11, par. 9]			
a. In one year or less?	___	___	___
b. After one year through five years?	___	___	___
c. After five years through ten years?	___	___	___
d. After ten years?	___	___	___
15. If investments in high-risk CMOs are significant, are the following disclosures made in the financial statements?			
a. The effective yield, calculated as of the reporting date, for either each CMO or for the CMO portfolio. (This yield will be used to accrue income in the following period.)	___	___	___
b. The carrying amount and fair value of investments in high-risk CMOs.	___	___	___
1. If market quotations are not available, are estimates made?	___	___	___
[EITF 89-4]			
B. Cash			
1. Is separate disclosure made for restricted cash?	___	___	___
[ARB 43, Ch. 3A, par. 6 (AC B05.107)]			
C. Accounts Receivable and Agents' Balances			
1. Does this category include life insurance premiums and annuity considerations uncollected?	___	___	___
[AAG, par. 5.02]			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Does this category include accident and health premiums due and unpaid? [AAG, par. 5.05]	—	—	—
3. Does this category include amounts due from reinsurers on paid losses on life and accident and health insurance? [AAG, par. 5.06]	—	—	—
4. Are the nature and significance of reinsurance transactions to the entity's operations, including reinsurance premiums assumed and ceded, and estimated amounts that are recoverable from reinsurers and that reduce the liabilities for unpaid claims and claim adjustment expenses, disclosed? [SFAS 60, par. 60(f) (AC In6.166(f))]	—	—	—
5. Does the entity treat fronting arrangements as reinsurance arrangements for purposes of disclosures required by SFAS 60? [PB, par. 6]	—	—	—
6. Does the entity disclose hypothecation or other pledging of receivables? [SFAS 5, pars. 18 and 19 (AC C59.120)]	—	—	—
D. Deferred Acquisition Costs			
1. Has the entity disclosed the following relating to deferred acquisition costs? [SFAS 60, par. 60c (AC In6.166c)]			
a. The nature of costs capitalized.	—	—	—
b. The method of amortizing these costs.	—	—	—
c. The amount of these costs amortized for the period.	—	—	—
2. Has the entity disclosed whether it considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists? [SFAS 60, par 60e (AC In6.166e)]	—	—	—
E. Property and Equipment			
1. Is the carrying basis of property and equipment disclosed?	—	—	—

YES NO N/A

2. For depreciable assets, are the following disclosed?

[APB 12, par. 5 (AC D40.105)]

a. Depreciation expense for each period for which an income statement is presented.

b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date.

c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date.

d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets.

3. Are pledged, mortgaged, or lienated assets disclosed?

[SFAS 5, pars. 18 and 19 (AC C59.120)]

4. For any accounting period in which interest costs have been capitalized, has the total amount of interest cost incurred during the period, and the amount thereof that has been capitalized, been disclosed?

[SFAS 34, par. 21 (AC I67.118)]

F. Lessee Leases

1. Is the following information disclosed with respect to capital leases?

[SFAS 13, par. 13 (AC L10.112)]

a. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function. This information may be combined with the comparable information for owned assets.

b. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the next five fiscal years, with separate deductions from the total for executory costs, including any profit thereon, included in the minimum lease payments and for the

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
amount of the imputed interest necessary to reduce the net minimum lease payments to present value.	—	—	—
c. The total of minimum sublease rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented.	—	—	—
d. Total contingent rentals actually incurred for each period for which an income statement is presented.	—	—	—
e. Has the entity separately identified:			
(1) Assets recorded under capital leases?	—	—	—
(2) Accumulated amortization of capital leases?	—	—	—
(3) Obligations under capital leases?	—	—	—
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense?	—	—	—
2. Has the following been disclosed for operating leases having initial or remaining noncancelable lease terms in excess of one year?			
a. Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years.	—	—	—
b. The total of minimum rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented.	—	—	—
3. For all operating leases, has the entity disclosed: [SFAS 13, par. 16 (AC L10.112)]			

YES NO N/A

a. Rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals? (Rental payments under leases with terms of a month or less that were not renewed need not be included.)

— — —

b. A general description of the lessee's leasing arrangements including, but not limited to, the following:

(1) The basis on which contingent rental payments are determined?

— — —

(2) The existence and terms of renewal or purchase options and escalation clauses?

— — —

(3) Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing?

— — —

G. Other Assets

1. Are net charges arising from financing-type reinsurance arrangements treated as deferred charges or receivables by the assuming company?

[AAG, par. 8.110]

— — —

2. For foreclosed assets held for sale:

a. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, has the deficiency been recognized and disclosed as a valuation allowance?

— — —

b. Have changes in the valuation allowance based upon fluctuations in the fair value (less disposal costs) been charged or credited to income and disclosed, if material?

— — —

[SOP 92-3 par. 12]

3. Are foreclosed assets held for the production of income reported and accounted for in the

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
same way had they been acquired by other means? [SOP 92-3 par. 15]	—	—	—
4. If foreclosed assets originally classified as held-for-sale are to be held for production of income, has the net effect been reported in income from continuing operations for the period in which the decision to retain the assets had been made? [SOP 92-3 par. 16]	—	—	—
5. In the period of transition for the adoption of SOP 92-3, has the nature of change been disclosed in the financial statements for the period in which the change is made? [SOP 92-3 par. 17]	—	—	—
H. Separate Account Assets			
1. Does the entity report investments in separate accounts at market, except for separate account contracts with guaranteed investment returns? [SFAS 60, par. 54 (AC In6.160)]	—	—	—
I. Policy Liabilities			
1. Is the basis for estimating the liabilities for unpaid claims and claim adjustment expenses disclosed? [SFAS 60 par. 60a (AC In6.166a)]	—	—	—
2. Are the methods and assumptions used in estimating the liability for future policy benefits and the average rate of assumed investment yields in effect for the current year disclosed? [SFAS 60 par. 60b (AC In6.166b)]	—	—	—
3. Is the carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to short-duration contracts that are presented at present value in the financial statements, and the range of interest rates used to discount those liabilities disclosed? [SFAS 60, par. 60d (AC In6.166d)]	—	—	—
4. Is the fact that the entity considers anticipated investment income in determining if a			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
premium deficiency relating to short-duration contracts exists disclosed? [SFAS 60, par 60e (AC In6.166d)]	—	—	—
5. Is the nature and significance of reinsurance transactions to the entity's operations, including reinsurance premiums assumed and ceded, and estimated amounts that are recoverable from reinsurers and that reduce the liabilities for unpaid claims and claim adjustment expenses disclosed? [SFAS 60, par 60f (AC In6.166f)]	—	—	—
6. For participating insurance, are the following disclosed? [(SFAS 60, par. 60g (AC In6.166g); AAG, pars. 10.07-.08]			
a. The relative percentage.	—	—	—
b. The method of accounting for policyholders' dividends.	—	—	—
c. The amount of dividends.	—	—	—
d. The amount of any additional income allocated to participating policyholders.	—	—	—
J. Income Taxes (Assumes the adoption of SFAS 109)			
1. Have deferred tax assets and liabilities determined for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction been presented separately? [SFAS 109, par. 17 (AC I27.116)]	—	—	—
2. Have the components of the total of all deferred tax assets and valuation allowance recognized in the statement of financial position been disclosed? [SFAS 109, par 43b-c (AC I27.142b-c)]	—	—	—
3. Have the components of the total of all deferred tax liabilities recognized in the statement of financial position been disclosed? [SFAS 109, par 43a (AC I27.142a)]	—	—	—

YES NO N/A

4. Has the following information been disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23 (as amended by SFAS 109)?

a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable.

b. The cumulative amount of each type of temporary difference.

c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable, or a statement that determination is not practicable.

d. The amount of the deferred tax liability for temporary differences other than those in Step 4.c. (that is, undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC Section I27.130 and .131) [SFAS 109, par. 44 (AC I27.143)]

K. Income Taxes (Assumes the adoption of SFAS 96)

1. Were deferred tax assets recognized for the net tax benefit of net deductible amounts that could be realized by loss carryback from future years:

[SFAS 96, par. 17e (AU I25.116e)]

a. To reduce a current deferred tax liability?

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. To reduce taxes paid in the current or a prior year?	—	—	—
2. Were deferred tax assets or liabilities adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.11)]	—	—	—
3. Were deferred tax assets or liabilities attributable to different tax jurisdictions presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)]	—	—	—
4. Were the types of temporary differences that give rise to significant portions of a deferred tax asset or liability disclosed? [SFAS 96, par. 24 (AC I25.123)]	—	—	—
5. Is the amount of a deferred tax asset or liability the net deferred tax consequence of: [SFAS 96, par. 24 (AC I25.123)]			
a. Temporary differences that will result in net taxable or deductible amounts during the next year?	—	—	—
b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year?	—	—	—
c. Temporary differences for which there is no related identifiable asset or liability for financial reporting [SFAS 96, par. 12 (AC I25.111)] whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year?	—	—	—
6. Were deferred tax liabilities recognized for temporary differences that will result in net taxable amounts in future years? [SFAS 96, par. 17f-h (AC I25.116f-h)]	—	—	—

YES NO N/A

7. For undistributed earnings of subsidiaries or corporate joint ventures, for which a deferred tax liability is not recognized, do the disclosures include:

[SFAS 96, par. 25 (AC I25.124)]

- a. A description of the types of temporary differences? _____

- b. The types of events that would cause the temporary differences to become taxable? _____

- c. The cumulative amount of each type of temporary difference? _____

- d. The amount of the unrecognized deferred tax liability, if determination of that liability is practicable, or a statement that determination is not practicable and the amount of withholding taxes that would be payable upon remittance of the earnings? _____

L. Income Taxes (APB 11)

1. Has the entity disclosed the following relating to income taxes calculated under APB 11?

[SFAS 60, par. 60i (AC I25.124)]

- a. The treatment of policyholders' surplus under the U.S. Internal Revenue Code and that income taxes may be payable if the entity takes certain specified actions, which should be appropriately described. _____

- b. The accumulated amount of policyholders' surplus for which income taxes have not been accrued. _____

2. Has the entity disclosed any retained earnings in excess of policyholders' surplus on which no current or deferred federal income tax provisions have been made and the reasons for not providing the deferred taxes? _____

[SFAS 60, par. 60j (AC I25.125)]

YES NO N/A

M. Long-Term Debt

- | | | | |
|---|---|---|---|
| 1. Are the major components of debt disclosed on the face of the balance sheet or in the notes?
[SFAS 47, par. 10 (AC C32.105)] | — | — | — |
| a. Is there disclosure of the aggregate amount of maturities and sinking fund requirements for all long-term borrowings and redeemable preferred stock for each of the five years following the balance sheet date? | — | — | — |
| 2. Are conversion features appropriately accounted for and disclosed?
[APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)] | — | — | — |
| 3. For troubled debt restructuring occurring during the current period, do disclosures include:
[SFAS 15, par. 25 (AC D22.121)] | | | |
| a. Description of the principal changes in terms, the major features of settlement, or both? | — | — | — |
| b. Aggregate gain on restructuring of payables and the related income tax effect? | — | — | — |
| c. Aggregate net gain or loss on transfers of assets recognized during the period? | — | — | — |
| d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? | — | — | — |
| 4. For periods after a troubled debt restructuring, do disclosures include:
[SFAS 15, par. 26 (AC D22.122)] | | | |
| a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables? | — | — | — |
| b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? | — | — | — |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. If there was an extinguishment of debt, was the difference between reacquisition price and carrying amount:			
a. Recognized currently in income? [APB 26, pars. 20-21 (AC D14.103-.104); FTB 80-1, pars. 3-4 (AC D14.503-.504); SFAS 84, par. 5 (AC D14.101)]	___	___	___
b. Identified as a separate or extraordinary item? [SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)]	___	___	___
6. Do disclosures for extinguishments of debt described in Step 5 above include: [SFAS 4, par. 9 (AC D14.107)]			
a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?	___	___	___
b. Income tax effect in the period of extinguishment?	___	___	___
c. The per share amount of the aggregate gain or loss net of related income tax effect?	___	___	___
7. If debt was considered extinguished per SFAS 76, paragraph 3c, does the disclosure include: [SFAS 76, par. 6 (AC D14.108)]			
a. A general description of the transaction?	___	___	___
b. The amount of debt that is considered extinguished as long as the debt remains outstanding?	___	___	___
8. If a covenant on a long-term loan agreement is not met, and thus the lender has the right to call the debt, and the lender waives that right for a period of greater than one year but retains the future covenant requirements,			

YES NO N/A

was the debt classified as noncurrent unless both of the following were met?

a. The covenant violation occurred at the balance sheet date or would have occurred absent a loan modification,

___ ___ ___

and

b. It is probable the enterprise will not be able to comply with the covenant at a measurement date within the next 12 months.

___ ___ ___

[EITF 86-30]

N. Other Liabilities

1. Are liabilities appropriately accrued and reported for employees' compensation for future absences?

___ ___ ___

[SFAS 43, par. 6 (AC C44.104)]

2. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated?

___ ___ ___

[SFAS 88, par. 15 (AC P16.185)]

3. For loans transferred with recourse that are not reported as sales, is the amount of proceeds from the transfer reported as a liability?

___ ___ ___

[SFAS 77, par. 8 (AC R20.109)]

4. Are net credits arising from financing-type reinsurance agreements treated as a deferred credit or liability by the ceding company?

___ ___ ___

[AAG, par. 8.110]

O. Capital Stock

1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share?

___ ___ ___

[APB 12, par. 10 (AC C08.102)]

2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, for example:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights? [APB 15, par. 19 (AC E09.110)]	—	—	—
3. Are the amounts of redemption requirements for all issues of capital stock redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)]	—	—	—
4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]	—	—	—
5. For preferred stock, do disclosures include: [APB 10, par. 11 (AC C16.102)]			
a. The aggregate or per share amounts at which shares may be called or are subject to redemption?	—	—	—
b. The aggregate and per share amounts of arrearages in cumulative preferred dividends?	—	—	—
6. For stock option and stock purchase plans, do disclosures include: [APB 43, Ch. 13B, par. 15 (AC C47.123); FASBI 28 (AC C47.119-.122 and .138-.146); FTB 82-2, pars. .10-.12 (AC C47.513-.515); FASBI 38 (AC C47.135A-.135E)]			
a. The number of shares under option?	—	—	—
b. The option price?	—	—	—
c. The number of shares as to which options are exercisable?	—	—	—
d. For shares exercised, the number of shares exercised and option price?	—	—	—

YES NO N/A

P. Retained Earnings

- | | | | |
|---|---|---|---|
| 1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed?
[SFAS 5, par. 18 (AC C59.120)] | — | — | — |
| 2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity?
[SFAS 5, par. 15 (AC C59.117)] | — | — | — |
| 3. After completion of a quasi reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant?
[ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)] | — | — | — |

Q. Other Stockholders' Equity Accounts

- | | | | |
|--|---|---|---|
| 1. Are cumulative translation adjustments separately disclosed?
[SFAS 52, par. 31 (AC F60.141)] | — | — | — |
| 2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed?
[FTB 85-6, par. 3 (AC C23.501-.503)] | — | — | — |
| 3. Is the valuation allowance for marketable equity securities separately disclosed?
[SFAS 12, par. 11 (AC I89.104)] | — | — | — |
| 4. Do the stockholders' equity accounts include:
[AAG, par. 7.01] | | | |
| a. Capital stock? | — | — | — |
| b. Capital in excess of par? | — | — | — |
| c. Retained earnings, showing restricted and unrestricted amounts separately? | — | — | — |
| d. Unrealized investment gains and losses? | — | — | — |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. If statutory surplus is below the minimum required by law, is disclosure of the relevant facts made? [AAG, par. 10.15]	—	—	—
6. Is the following information relating to stockholders' equity, statutory capital and surplus, and the effects of statutory accounting practices on the ability to pay dividends to stockholders disclosed? [SFAS 60, par 60h (AC In6.166h)]			
a. The amount of statutory capital and surplus.	—	—	—
b. The amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on current operations) if significant in relation to the statutory capital and surplus.	—	—	—
c. The nature of statutory restrictions on the payment of dividends and the amount of retained earnings that is not available for the payment of dividends to stockholders.	—	—	—
7. If an enterprise receives a note rather than cash as a contribution to its equity, is the note classified as a reduction of stockholders' equity unless (in the very limited circumstance) there is substantial evidence of ability and intent to pay within a reasonably short period of time? [EITF 85-1]	—	—	—

Income Statement

A. Premium Revenue

1. Do premium balances include reinsurance premiums assumed and deduct reinsurance premiums ceded? [SFAS 60, par. 60(f)]	—	—	—
2. Are premiums from universal life contracts no longer included in revenue, but recorded in the balance sheet policyholder accounts? [SFAS 97, par. 59]	—	—	—

YES NO N/A

B. Investment Income

- | | | | |
|--|---|---|---|
| 1. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield and reported as interest income?
[SFAS 91, par. 22 (AC L20.121)] | — | — | — |
| 2. Except as specified in SFAS 91, paragraph 20 [AC L20.119], is the interest method used as the method of amortization?
[SFAS 91, par. 18 (AC L20.117)] | — | — | — |
| 3. Is investment income presented net of investment expenses?
[SFAS 97, par. 23 (AC In6.137B)] | — | — | — |
| 4. Are the components of net investment disclosed? | — | — | — |
| 5. Are realized gains and losses on all investments (except for those that are accounted for as hedges as described in SFASs 52 and 80) reported in the statement of earnings as a component of other income, on a pretax basis?
[SFAS 97, par. 28] | — | — | — |

C. Other Income

- | | | | |
|--|---|---|---|
| 1. Is amortization of loan fees being amortized on the straight-line basis over the commitment period or included in income when the commitment expires, reported as other income?
[SFAS 91, par. 22 (AC L20.121)] | — | — | — |
| 2. For investments in common stock accounted for by the equity method: | | | |
| a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties?
[APB 18, par. 19a (AC I82.109a)] | — | — | — |
| b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor?
[APB 18, pars. 19c and 19d (AC I82.109c and .109d)] | — | — | — |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. Are income taxes of the investor's share of the investee's earnings appropriately accrued? [APB 24, pars. 7-10 (AC I42.114-.116 and .119); FASBI 29 (AC I42.117-.118)]	—	—	—
D. Benefits and Expenses			
1. Compensation:			
a. For a compensatory stock issuance plan is compensation expense accrued in the proper periods? [APB 25, pars. 12-15 (AC C47.112-.115); FASBI 38, pars. 2-6 (AC C47.135A-.135E)]	—	—	—
b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6-7 (AC C38.101-.102)]	—	—	—
2. Is discount or premium on notes receivable and payable amortized to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period (the interest method) and reported as interest? [APB 12, pars. 16-17 (AC I69.108); APB 21, pars. 15-16 (AC I69.108-.109)]	—	—	—
E. Income Taxes (Assumes the adoption of SFAS 109)			
1. Have the types of significant temporary differences and carryforwards been disclosed? [SFAS 109, par 43 (AC I27.142)]	—	—	—
2. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto: [SFAS 109, par 45a-h (AC I27.144a-h)]			
a. Current tax expense or benefit?	—	—	—
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	—	—	—
c. Investment tax credits?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. Government grants (to the extent recognized as a reduction of income tax expense)?	___	___	___
e. The benefits of operating loss carryforwards?	___	___	___
f. Tax expense that results from allocating certain benefits either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?	___	___	___
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?	___	___	___
h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?	___	___	___
3. Has the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35-39 of SFAS 109 [ACI27.134-.138]) been disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	___	___	___
4. Has the nature of significant reconciling items been disclosed? [SFAS 109, par 47 (AC I27.146)]	___	___	___
5. Have the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes been disclosed? [SFAS 109, par 48 (AC I27.147)]	___	___	___
6. If the entity is a member of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements:			

YES NO N/A

- a. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented? _____
- b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) are presented?
[SFAS 109, par 49 a-b (AC I27.148 a-b)] _____
7. Has the effect of initially applying SFAS 109 been reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB 20, paragraph 20) except for initially recognized tax benefits of the type required by SFAS 109 to be excluded from comprehensive income?
[SFAS 109, par. 51] _____
8. When initially presented, have the financial statements for the year SFAS 109 is first adopted disclosed the following:
- a. The effect, if any, of adopting SFAS 109 on pretax income from continuing operations (for example, the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented? _____
- b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per share amounts) for each year for which restated financial statements are presented?
[SFAS 109, par 52 a-b] _____

YES NO N/A

F. Income Taxes (Assumes the adoption of SFAS 96)

- | | | | |
|---|-----|-----|-----|
| 1. If the entity is a public enterprise that is not subject to income taxes because its income is taxed directly to its owners, has this fact and the net difference between the tax bases and the reported amounts of the entity's assets and liabilities been disclosed?
[SFAS 96, par. 24 (AC I25.123)] | ___ | ___ | ___ |
| 2. Has the amount of income tax expense or benefit been allocated to:
[SFAS 96, par. 26 (AC I25.125)] | | | |
| a. Continuing operations? | ___ | ___ | ___ |
| b. Discontinued operations? | ___ | ___ | ___ |
| c. Extraordinary items? | ___ | ___ | ___ |
| d. Cumulative effect of accounting changes? | ___ | ___ | ___ |
| e. Prior period adjustments? | ___ | ___ | ___ |
| f. Gains and losses included in comprehensive income but excluded from net income? | ___ | ___ | ___ |
| g. Capital transactions? | ___ | ___ | ___ |
| 3. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or notes thereto?
[SFAS 96, par. 27 (AC I25.126)] | | | |
| a. Current tax expense or benefit. | ___ | ___ | ___ |
| b. Deferred tax expense or benefit exclusive of Step f. below. | ___ | ___ | ___ |
| c. Investment tax credits. | ___ | ___ | ___ |
| d. Government grants (to the extent recognized as a reduction of income tax expense). | ___ | ___ | ___ |
| e. The benefits of operating loss carryforwards. | ___ | ___ | ___ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise.	_____	_____	_____
4. Do disclosures regarding income tax expense attributable to continuing operations include: [SFAS 96, par. 28 (AC I25.127)]			
a. A reconciliation (using percentages or dollar amounts) to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?	_____	_____	_____
b. The estimated amount and the nature of each significant item?	_____	_____	_____
5. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [APB 2, par. 16, SFAS 96, par. 29 (AC I25.128 and .187)]	_____	_____	_____
6. Do the disclosures for investment tax credits include the method followed (flow-through or deferral) and the amounts involved? [APB 4, par. 11 (AC I25.186)]	_____	_____	_____
7. If the entity is part of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements? [SFAS 96, par. 30 (AC I25.129)]			
a. The amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented.	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to			

YES NO N/A

members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in Step 7.a. are presented.

8. For the earliest year restated or for the year SFAS 96 is first adopted if no prior year is restated, was the effect of applying SFAS 96 on the amount of deferred tax charges or credits at the beginning of the fiscal year reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle as described in APB 20, paragraph 20 except for any effects of the type required by SFAS 96 to be excluded from net income?
[SFAS 96, par. 33]

9. When initially presented, did the financial statements for the year SFAS 96 was first adopted disclose the following:
[SFAS 96, par. 34]

- a. The effect of adopting SFAS 96 on income from continuing operations, income before extraordinary items, and net income for the year of adoption if restated financial statements for the prior year are not presented?

- b. The effect of any restatement on any income from continuing operations, income before extraordinary items, and net income for each year presented?

G. Income Taxes (APB 11)

1. Are the components of income tax expense disclosed (tax expense estimated to be currently payable, tax effects of timing differences, and tax effects of operating losses) and allocated to:
[APB 11, par. 60 (AC I28.106)]

- a. Income before extraordinary items?

- b. Extraordinary items?

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Are tax benefits realized from operating loss carryforwards (other than preacquisition losses of acquired subsidiaries) reported as an extraordinary item in the period realized? [APB 11, par. 61 (AC I17.116)]	___	___	___
3. Do disclosures regarding income taxes include: [APB 11, par. 63 (AC I28.109); SFAS 31, par. 7 (AC I42.133); TB 82-1, par. 5 (AC I28.511)]			
a. Amounts of any unused operating loss carryforwards together with expiration dates (including separate identification of amounts that upon recognition would be credited to deferred taxes)?	___	___	___
b. Significant amounts of any other unused deductions and/or credits together with expiration dates?	___	___	___
c. Reasons for variations in the customary relationships between income tax expense and pretax accounting income?	___	___	___
d. Domestic and foreign components of income taxes?	___	___	___
4. For undistributed earnings of a subsidiary and/or corporate joint venture, for which income taxes have not been accrued, do disclosures include: [APB 23, pars. 14 and 18 (AC I42.109 and .112)]			
a. Declaration of either intention to reinvest such earnings to support the conclusion that their remittance has been indefinitely postponed, or that the undistributed earnings will be remitted in the form of a tax-free liquidation?	___	___	___
b. Cumulative amount of undistributed earnings on which the parent company has not recognized income taxes?	___	___	___
5. Is the accumulated amount of bad debt reserves for which income taxes have not been accrued disclosed? [APB 23, par. 24 (AC I42.124)]	___	___	___

YES NO N/A

H. Discontinued Operations

1. Are operations of a discontinued segment or one that is the subject of a formal plan for disposition:

a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items?

[APB 30, pars. 8 and 13-18 (AC I13.101-.103, .105-.106 and .108-.109)]

— — —

b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations?

[APB 30, par. 8 (AC I13.105)]

— — —

2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items?

[APB 30, pars. 8 and 13-18 (AC I13.101-.103, .105-.106 and .108-.109)]

— — —

3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale?

[FASBI 37, par. 2 (AC F60.120)]

— — —

4. For the period encompassing the measurement date, do notes to financial statements disclose:

[APB 30, par. 18 (AC I13.108-.109)]

a. Identity of the segment discontinued?

— — —

b. Expected disposal date, if known?

— — —

c. Expected manner of disposal?

— — —

YES NO N/A

d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date?

e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance sheet date?

5. For periods after measurement date and including the period of disposal, do notes to financial statements disclose the information required by Steps 4.a.-d. above and the information required by Step 4.e. above compared with prior estimates?

[APB 30, par. 18 (AC I13.108.-.109)]

6. If the company had accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decided to retain the segment, was any impairment writedown of the individual assets classified in continuing operations?

[EITF 90-16]

7. If the entity plans to dispose of two segments of a business, and a net gain is expected (one has a net gain and the other a net loss), is that gain shown net of the loss?

[EITF 85-36]

I. Extraordinary Items

1. Do extraordinary items meet both criteria of (1) an unusual nature, and (2) infrequency of occurrence?

[APB 30, pars. 19-24 (AC I17.106-.111 and .118)]

2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?

[APB 30, pars. 10-12 (AC I17.102-.103)]

3. Are descriptive captions and amounts (including applicable income taxes) presented for

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
individual extraordinary events or transactions, preferably on the face of the income statement? [APB 30, par. 11 (AC I17.102)]	—	—	—
4. Do disclosures include descriptions of an extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]	—	—	—
5. Are material events or transactions that are either unusual in nature, or of infrequent occurrence but not both (and therefore not meeting criteria for extraordinary items): [APB 30, par. 26 (AC I22.101); FTB 82-1, par. 6 (AC I25.505)]			
a. Reported as a separate component of income from continuing operations?	—	—	—
b. Accompanied by disclosure of the nature and financial effects of each event?	—	—	—
6. For an existing property with an asbestos problem, were the costs incurred to treat the problem (if charged to expense) not classified as an extraordinary item? [EITF 89-13]	—	—	—
J. Other			
1. Are the following excluded from determination of net income or results of operations under all circumstances? [APB 9, par. 28 (AC C08.101)]			
a. Adjustments or charges or credits resulting from transactions in the entity's own capital stock.	—	—	—
b. Transfers to and from accounts properly designated as appropriated retained earnings.	—	—	—
c. Adjustments made pursuant to a quasi reorganization.	—	—	—

YES NO N/A

2. If earnings per share information is presented on the face of the income statement, is it accompanied by appropriate disclosure that includes the basis of the calculation?

[APB 15 (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c and .132, A35.105 and .113); APB 30, pars. 9 and 12 (AC E09.104, I13.107 and I17.103); FASBI 31 (AC E09.128-.131 and .169-.176); FASBI 38, par. 7 (AC E09.130A); and SFAS 85, par. 3 (AC E09.123A)]

3. For nonpublic companies, if there was a restructuring charge, was it reflected using the most meaningful income statement presentation within the framework of APB 30?

[EITF 87-4]

Statement of Changes in Stockholders' Equity

- A. Are changes in separate component accounts of stockholders' equity disclosed?

[APB 12, par. 10 (AC C08.102)]

- B. Are changes in the number of shares of equity securities disclosed?

[APB 12, par. 10 (AC C08.102)]

- C. Are prior period adjustments limited to:

1. Correction of an error(s) in financial statements of prior periods?

[SFAS 16, par. 11 (AC A35.103)]

2. Adjustments resulting from realization of income tax benefits of preacquisition operating loss or tax credit carryforwards of purchased subsidiaries?

[SFAS 96, par. 23 (AC I25.122)]

- D. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?

[APB 9, par. 26 (AC A35.107)]

- E. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected?

[APB 20, par. 37 (AC A35.105)]

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Nature of the error in previously issued financial statements.	_____	_____	_____
2. Effect of its correction on income before extraordinary items, net income, and related per share amounts (if applicable).	_____	_____	_____
Statement of Cash Flows			
A. Is a statement of cash flows presented as a basic financial statement for each period for which an income statement is presented? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27-28 (AC C25.125-.126)]	_____	_____	_____
1. Are cash receipts and payments from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account, classified as operating cash flows? [SFAS 102, par. 8 (AC C25.122A)]	_____	_____	_____
2. Are cash receipts and payments resulting from acquisitions and sales of loans (if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market) classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)]	_____	_____	_____
C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities? [SFAS 95, pars. 22-23 (AC C25.120-.121)]			
1. Cash receipts from sales such as premiums and annuity deposits collected.	_____	_____	_____
2. Cash receipts from interest and dividends.	_____	_____	_____
3. All other cash receipts that do not stem from transactions defined as investing or financing activities.	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Cash payments to suppliers and employees, such as benefits paid to policyholders, surrender benefits, and dividends paid to policyholders.	___	___	___
5. Cash payments to governments for taxes, duties, fines, and other fees or penalties.	___	___	___
6. Cash payments to lenders and other creditors for interest.	___	___	___
7. All other cash payments that do not stem from transactions defined as investing or financing activities.	___	___	___
D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	___	___	___
E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities? [SFAS 95, pars. 16-17 (AC C25.114-.115)]			
1. Receipts from collections or sales of loans.	___	___	___
2. Receipts from sales of property or investments.	___	___	___
3. Loans to other entities.	___	___	___
4. Payments to acquire property or investments.	___	___	___
F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	___	___	___
G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities? [SFAS 95, pars. 19-20 (AC C25.117-.118)]			
1. Proceeds from issuing debt or capital stock.	___	___	___
2. Repayment of amounts borrowed.	___	___	___
3. Dividend payments to shareholders.	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Acquisition of treasury stock.	—	—	—
H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	—	—	—
I. Does statement of cash flows explain the effect of cash flows by showing the change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	—	—	—
J. Is the policy for defining cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	—	—	—
K. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? [SFAS 95, par. 29-30 (AC C25.127-.128)]	—	—	—
L. Are noncash investing and financing activities, such as converting debt to equity, summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	—	—	—
M. If the indirect method is used, are the amounts of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed? [SFAS 95, par. 29 (AC C25.127)]	—	—	—

Exhibit A - Postretirement Health Care Benefits:

The effective date of SFAS 106 shall be for fiscal years beginning after December 15, 1992 except for plans outside the United States and for defined benefit plans of employers that (a) are nonpublic entities and (b) sponsor defined benefit post-retirement plan(s) with no more than 500 plan participants in the aggregate in which case the effective date shall be for fiscal years beginning after December 15, 1994. Earlier application is

YES NO N/A

encouraged. Until such time the following disclosures remain in effect:

A. Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:

[SFAS 81, par. 6 (AC P50.102)]

a. Description of benefits and employee groups covered?

____ ____ ____

b. Description of accounting and funding policies?

____ ____ ____

c. Cost of benefits recognized during the period?

____ ____ ____

d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?

____ ____ ____

Auditors' Reports Checklist

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

Explanation of References:

- AR = Reference to section number in AICPA Professional Standards (vol. 2) of SSARS cited
- AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
- AAG = Audit and Accounting Guide, Audits of Stock Life Insurance Companies (Fifth edition)
- SAS = Statement on Auditing Standards

Checklist Questionnaire

	YES	NO	N/A
1. Does the auditor's report include:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	___	___	___
b. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 58, par. 46 (AU 508.46); SAS 26, pars. 15-17 (AU 504.15-.17)]	___	___	___
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	___	___	___
2. If the auditor is not independent, is the appropriate disclaimer expressed for a public entity? [SAS 26, pars. 8-10 (AU 504.08-.10)]	___	___	___
3. Is the reporting language appropriate for: [SAS 58, par. 8 (AU 508.08)]			
a. Financial statements of a single year or period?	___	___	___
b. Comparative financial statements?	___	___	___
4. Does the auditor's report include appropriate language for the following?			
a. The auditor's opinion is based in part on the report of another auditor. [SAS 58, pars. 12-13 (AU 508.12-.13)]	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Departure from a promulgated accounting principle that could result in a misleading financial statement. [SAS 58, pars. 14-15 (AU 508.14-.15)]	—	—	—
c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible to reasonable estimation. [SAS 58, pars. 16-33 (AU 508.16-.33)]	—	—	—
d. The auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern". [SAS 64, par. 1 (AU 341.12)]	—	—	—
e. There was a material change between periods in accounting principles or in the method of their application. [SAS 58, pars. 34-36 (AU 508.34-.36)]	—	—	—
f. Opinion on prior-period financial statements is different from the opinion previously expressed. [SAS 58, pars. 77-78 (AU 508.77-.78)]	—	—	—
g. A predecessor auditor's report is reissued. [SAS 58, pars. 80-82 (AU 508.80-.82)]	—	—	—
h. Selected quarterly financial data required by the SEC was omitted or was not reviewed. [SAS 71, pars. 41-42 (AU 722.41-.42)]	—	—	—
i. If supplemental information required by the FASB or GASB has been presented outside the basic financial statements in an auditor-submitted document, have the following points been considered? [SAS 52, par 15 (AU 551.15)]			
(1) The supplemental information was omitted.	—	—	—
(2) Presentation of information departs materially from FASB guidelines.	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(3) The auditor is unable to complete prescribed procedures.	—	—	—
(4) The auditor has substantial doubt the information conforms to FASB guidelines.	—	—	—
j. Other information in a client-prepared document containing the audited financial statements is materially inconsistent with information appearing in the financial statements. [SAS 8, par. 4 (AU 550.04)]	—	—	—
k. A matter regarding the financial statement should be emphasized. [SAS 58, par. 37 (AU 508.37)]	—	—	—
l. Report on one basic financial statement and there are no scope limitations. [SAS 58, par. 48 (AU 508.48)]	—	—	—
m. Reports on comparative financial statements. [SAS 58, pars. 74-75 (AU 508.74-.75)]	—	—	—
n. For comparative financial statements, there is an unqualified opinion on one of the financial statements for one period and a qualified or adverse opinion, a disclaimer, or an explanatory paragraph on the other financial statements for another period. [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	—	—	—
o. Comparative financial statements with an opinion different from the opinion previously expressed. [SAS 58, pars. 77-78 (AU 508.77-.78)]	—	—	—
p. Comparative financial statements when predecessor auditor's report not presented. [SAS 58, par. 83 (AU 508.83)]	—	—	—
q. Audited and unaudited financial statements in comparative form. [SAS 26, pars. 14-17 (AU 504.14-.17)]	—	—	—
r. Report on comparative statements of income, retained earnings, and cash flows without presentation of comparative balance sheets for the prior periods. [SAS 58, par. 8, fn. 7 (AU 508.08, fn. 7)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
s. The effects of variances from generally accepted accounting principles were determined to be material to one or more but not all of the financial statements. [SAS 58, par. 76 (AU 508.76); AAG, par. 11.12]	—	—	—
t. A change in financial reporting from a regulatory basis to GAAP or vice versa considered a change involving consistency. [SAS 1, sec. 420, par. 11 (AU 420.11)]	—	—	—
5. If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor indicated in the introductory paragraph that: [SAS 58, par. 83 (AU 508.83)]			
a. The financial statements of the prior period were audited by another auditor?	—	—	—
b. The date of the report?	—	—	—
c. The type of report issued by the predecessor auditor?	—	—	—
d. If the report was other than a standard report, the substantive reasons therefor?	—	—	—
6. If the financial statements have been restated, does the introductory paragraph indicate that a predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, par. 83 (AU 508.83)]	—	—	—
7. If the successor auditor applies sufficient procedures to satisfy himself or herself as to the appropriateness of any restatement adjustments made by the predecessor auditor, does the report comply with SAS 58, paragraph 83? [SAS 58, par. 83 (AU 508.83)]	—	—	—
8. If, following a pooling-of-interest transaction, an auditor is engaged to report on restated financial statements for one or more prior years when other auditors audited one or more of the entities included in such financial statements,			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
does the report include explanatory language in accordance with SAS 64, paragraph 3? [SAS 64, par. 3 (AU 543.16)]	—	—	—
9. Is a qualified opinion or disclaimer of opinion expressed if:			
a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? [SAS 31, par. 22 (AU 326.23); SAS 58, pars. 40-48 (AU 508.40-.48)]	—	—	—
b. The financial statements are prepared in conformity with regulatory practices and, when the effects of the variances from generally accepted accounting principles have not been determined, a disclaimer of opinion has been issued? [SAS 62, pars. 22-30 (AU 623.22-.30); AAG, par. 11.08]	—	—	—
10. Is a qualified opinion or adverse opinion expressed if the following circumstances are present?			
a. An uncertainty is not adequately disclosed in the financial statements. [SAS 58, par. 20 (AU 508.20)]	—	—	—
b. The accounting principles used cause the financial statements to be materially misstated. [SAS 58, par. 21 (AU 508.21)]	—	—	—
c. The financial statements are prepared in conformity with regulatory practices, and the effects of the variances from generally accepted accounting principles are material. [SAS 62, pars. 22-30 (AU 623.22-.30); AAG, par. 11.06]	—	—	—
d. Unreasonable accounting estimates cause the financial statements to be misstated. [SAS 58, par. 22 (AU 508.22)]	—	—	—
e. The financial statements contain a material departure from GAAP, inadequate disclosure, or an accounting change.	—	—	—

YES NO N/A

[SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]

- | | | | |
|--|---|---|---|
| f. There are management representations that a material related-party transaction was consummated on terms equivalent to those that prevail in arm's-length transactions and the auditor believes that this representation is unsubstantiated by management.
[SFAS 45, par. 12 (AU 334.12)] | — | — | — |
| g. The client voluntarily includes supplementary information that has not been audited and the auditor has not included a disclaimer on the information in an explanatory paragraph in the audit report.
[SAS 52, par. 3 (AU 558.03)] | — | — | — |
| h. The financial statements are materially affected by an irregularity.
[SAS 53, par. 26 (AU 316.26)] | — | — | — |
| i. An illegal act that has a material effect on the financial statements was not properly accounted for or disclosed.
[SAS 54, par. 18 (AU 317.18)] | — | — | — |
| 11. Is an adverse opinion expressed if the financial statements do not present fairly, in the auditor's judgment, the financial position, results of operations or cash flows in conformity with GAAP?
[SAS 58, pars. 67-69 (AU 508.67-.69)] | — | — | — |
| 12. Is a disclaimer of opinion expressed when the auditor has not performed an audit sufficient in scope to enable the auditor to form an opinion?
[SAS 58, par. 70 (AU 508.70)] | — | — | — |
| a. In addition, have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed?
[SAS 58, par. 71 (AU 508.71)] | — | — | — |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
13. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]	—	—	—
b. Is the reporting language clear and appropriate for the:			
(1) Qualified opinion? [SAS 58, pars. 38-66 (AU 508.38-.66)]	—	—	—
(2) Adverse opinion? [SAS 58, pars. 67-69 (AU 508.67-.69)]	—	—	—
(3) Disclaimer of opinion? [SAS 58, pars. 70-72 (AU 508.70-.72)]	—	—	—
14. Does the auditor's report include modification, if applicable, for the following?			
a. Conditions that precluded application of necessary auditing procedures to long-term investments. [SAS 58, par. 42 (AU 508.42)]	—	—	—
b. Regulated companies. [SAS 1, sec. 544.02-.04 (AU 544.02-.04); SAS 62, pars. 2-8 (AU 623.02-.08)]	—	—	—
c. Inadequate disclosure. [SAS 58, pars. 55-58 (AU 508.55-.58)]	—	—	—
d. Client representations about related-party transactions. [SAS 45, par. 2 (AU 334.12)]	—	—	—
e. Client's refusal to provide written representations. [SAS 19, par. 11 (AU 333.11)]	—	—	—
f. Limitations on scope of lawyer's response. [SAS 12, pars. 12-14 (AU 337.12-.14)]	—	—	—
g. Unresolved matters involving specialists. [SAS 11, par. 9 (AU 336.09)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
h. Scope limitation concerning errors or irregularities. [SAS 53, par. 27 (AU 316.27)]	—	—	—
i. Illegal acts by clients. [SAS 54 (AU 317)]	—	—	—
j. Segment information. [SAS 21 (AU 435)]	—	—	—
k. Substantial doubt about the entity's continued existence. [SAS 59, pars. 12-16 (AU 341.12-.16)]	—	—	—
l. Material misstatement of the financial statements. [SAS 47, par. 31 (AU 312.31)]	—	—	—
m. Financial statements issued before the effective date of a SFAS when disclosure is not made of the effect of a restatement which will be required in the future as a result of the SFAS (for example, evaluate the prospective effects of SFAS 106). [Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)]	—	—	—
n. Client's voluntarily including supplementary information which was not audited. [SAS 52, par. 3 (AU 558.03)]	—	—	—
o. If the financial statements are prepared on a statutory basis, are they suitably titled (e.g., statement of income—statutory basis). [SAS 62, par. 7 (AU 623.07)]	—	—	—
(1) If not suitably titled, are the auditor's reservations disclosed in an explanatory paragraph and a qualified report issued.	—	—	—
15. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]	—	—	—

YES NO N/A

16. For special reports, have the provisions of SAS 35 and SAS 62 been complied with for the following?

a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles.
[SAS 62, pars. 2-8 (AU 623.02-.08)]

___ ___ ___

b. Specified elements, accounts or items of a financial statement.
[SAS 62, pars. 11-14 (AU 623.11-.14); SAS 35 (AU 622)]

___ ___ ___

c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements.
[SAS 62, pars. 19-21 (AU 623.19-.21)]

___ ___ ___

d. Financial information that requires a prescribed form of auditor's report.
[SAS 62, pars. 22-26 (AU 623.22-.26)]

___ ___ ___

17. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document:

a. Is there a clear distinction between the client's representations and the auditor's representations?
[SAS 29, par. 20 (AU 551.20)]

___ ___ ___

b. Does the auditor's report on the accompanying information:
[SAS 29, par. 6 (AU 551.06)]

(1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?

___ ___ ___

(2) Specifically identify the accompanying information?

___ ___ ___

(3) State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?

___ ___ ___

YES NO N/A

- (4) State whether the additional information was subjected to the auditing procedures applied in auditing the basic financial statements and is the appropriate expression or disclaimer of opinion included?
18. If an auditor-submitted document with accompanying information coexists with a document that includes just the basic financial statements and auditor's report:
- a. Do the basic financial statements in all coexisting documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles?
 [SAS 29, par. 21 (AU 551.21)]
- b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the audit in the auditor's standard (or modified) report?
 [SAS 29, par. 20 (AU 551.20)]
19. If the document contains interim financial information, was the auditor's report expanded if required?
 [SAS 71, pars. 30-34 (AU 722.30-.34)]
20. If supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, is an opinion disclaimed on such information unless it was audited?
 [SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 and 11 (AU 558.08 and .11)]
21. If the entity is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, is the auditor's report appropriately modified if:
 [SAS 52, par. 2 (AU 558.08)]
- a. Required supplementary information is omitted?
- b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. The auditor is unable to complete the procedures prescribed by SAS 52?	—	—	—
22. If a report on internal accounting control is to be issued to the audit committee or board of directors as required by SAS 60 (AU 325) (refer to NAIC Model Rule Section 11 for more detail), is the appropriate form used for:			
a. Expression of an opinion on the entity's system of internal accounting control in effect as of a specified date or during a specific period of time? [SAS 30, pars. 37-46 (AU 642.37-.46)]	—	—	—
b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed upon matters? [SAS 60, pars. 12-19 (AU 325.12-.19)]	—	—	—
c. Report on all or part of the entity's system of internal accounting controls for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54-59 (AU 642.54-.59)]	—	—	—
d. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	—	—	—
23. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor's report indicate: [SAS 42, par. 5 (AU 552.05)]			
a. The auditor has audited and expressed an opinion on the complete financial statements?	—	—	—
b. The date of the report on the complete financial statements?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. The type of opinion expressed?	—	—	—
d. Whether, in the auditor's opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?	—	—	—
24. If a statement that names the auditor and also states that condensed financial statements were derived from audited financial statements is made in a client-prepared document that does not include audited financial statements, and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]	—	—	—
25. If reporting on selected financial data included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and this data is derived from audited financial statements, does the auditor's report indicate the following? [SAS 42, par. 9 (AU 552.09)]			
a. That the auditor has examined and expressed an opinion on the complete financial statements.	—	—	—
b. The type of opinion expressed.	—	—	—
c. The specific data on which the auditor is reporting.	—	—	—
d. Whether, in the auditor's opinion, the information in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived.	—	—	—
26. If the selected financial data for any of the years presented are derived from financial			

YES NO N/A

statements audited by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data?
[SAS 42, par. 9 (AU 552.09)]

___ ___ ___

Supplemental Checklist for Life Insurance Companies That Are SEC Registrants

This supplemental checklist for life insurance companies contains additional disclosures required in financial statements of life insurance companies that are SEC registrants. References in this supplement are from SEC rules and regulations, because there is no specific counterpart under GAAP. This checklist covers SEC disclosures required by Article 7 of Regulation S-X which relates to financial statements filed for insurance companies. Many of these disclosures are routinely made by life insurance companies even though they are not covered under the Securities Exchange Act of 1934.

Except as permitted by the SEC, the disclosures, if applicable, should appear on the face of the financial statements or in the notes thereto.

YES NO N/A

Balance Sheet

A. Investments Other Than Investments in Related Parties (Reg. S-X, Rule 7-03-1 and SAB Topic No. 6)

1. Do the following captions appear separately on the balance sheet?

a. Fixed maturities including bonds, notes, marketable certificates of deposits with maturities beyond one year and redeemable preferred stocks.

b. Equity securities, including common stocks and nonredeemable preferred stocks.

c. Mortgage loans on real estate.

d. Investment real estate excluding real estate acquired in settling title claims, mortgage guaranty and insurance claims (which should be included in "Other Assets").

(1) Is the amount of accumulated depreciation and amortization deducted disclosed in the balance sheet or in the notes to financial statements.

e. Policy loans.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
f. Other long-term investments.	___	___	___
(1) Do the notes state the amount of any class of investment exceeding 10% of stockholders' equity?	___	___	___
g. Short-term investments, including investments maturing in one year—commercial paper, marketable certificates of deposit, savings accounts, time deposits, cash accounts or cash equivalents earning interest.	___	___	___
(1) Do the notes disclose any amounts subject to withdrawal or usage restrictions?	___	___	___
h. Total investments.	___	___	___
2. Does the balance sheet include, parenthetically or otherwise:			
a. The basis of determining the investment amounts shown in the balance sheet?	___	___	___
b. The aggregate cost or aggregate carrying value at the balance sheet date of fixed maturities and equity securities?	___	___	___
3. Has consideration been given to discussion of "Valuation Securities" in Section 403.03 of the SEC <u>Codification of Financial Reporting Practices</u> ?	___	___	___
4. Has consideration been given to disclosure of material changes in market value of investments between balance sheet date and report date?	___	___	___
5. Do the notes state the name of any person in which the total amount invested (aggregate indebtedness, stocks issued and real estate purchased) in the person and its affiliates, exceeds 10% of total stockholders' equity?	___	___	___
a. Is the amount included in each subcaption disclosed? (No disclosure needs to be made of investments in bonds and notes of the United States Government or its agencies that exceed 10% of stockholders' equity.)	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
6. For investments in fixed maturities, mortgage loans on real estate, investment real estate and other long-term investments, do the notes disclose the amount of nonincome-producing investments for the 12 months preceding the balance sheet date?	___	___	___
B. Cash (Reg. S-X, Rule 7-03-2)			
1. Is cash on hand or on deposit restricted as to withdrawal or usage disclosed separately on the balance sheet?	___	___	___
a. Are the provisions of any restrictions (including legally restricted deposits held as compensating balances, contracts entered into with others or the companies' intentions about particular deposits) described in the notes?	___	___	___
b. Are non-legally restricted compensating balance arrangements disclosed?	___	___	___
c. Do the notes disclose compensating balances maintained under an agreement to assure future credit availability?	___	___	___
C. Securities and Indebtedness of Related Parties (Reg. S-X, Rule 7-03-3)			
1. Are investments in related parties disclosed?	___	___	___
2. Is indebtedness from related parties disclosed?	___	___	___
D. Accrued Investment Income (Reg. S-X, Rule 7-03-4)			
1. Is the amount of accrued investment income reported separately?	___	___	___
E. Accounts and Notes Receivable (Reg. S-X, Rule 7-03-5)			
1. Are the amounts receivable from agents and insureds included?	___	___	___
2. Is the amount of uncollected premiums included?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Are other receivables included?	___	___	___
a. Is there separate disclosure in the notes or in the balance sheet of any "other receivable" in excess of 5% of total assets?	___	___	___
4. Is the amount of the allowance for doubtful accounts disclosed separately, in the balance sheet or in a note?	___	___	___
F. Reinsurance Recoverable on Paid Losses (Reg. S-X, Rule 7-03-6)			
1. Are the amounts disclosed?	___	___	___
G. Deferred Policy Acquisition Costs (Reg. S-X, Rule 7-03-7)			
1. Are the amounts disclosed?	___	___	___
H. Property and Equipment (Reg. S-X, Rule 7-03-8)			
1. Is the basis of determining the amounts disclosed?	___	___	___
2. Do the balance sheet or the notes disclose the amount of accumulated depreciation and amortization of property and equipment?	___	___	___
I. Title Plant (Reg. S-X, Rule 7-03-9)			
1. Is the amount disclosed?	___	___	___
J. Other Assets (Reg. S-X, Rule 7-03-10)			
1. Is there separate disclosure on the balance sheet or in the notes of the amount of any "other asset" in excess of 5% of total assets?	___	___	___
K. Assets Held in Separate Accounts (Reg. S-X, Rule 7-03-11)			
1. Does the caption include aggregate amount of assets used to fund liabilities related to variable annuities, pension funds and similar activities?	___	___	___
2. Do the notes to the financial statements describe the general nature of the activities being reported on in the separate accounts?	___	___	___

YES NO N/A

L. Policy Liabilities and Accruals (Reg. S-X, Rule 7-03-13 and SAB No. 74)

- | | | | |
|--|-------|-------|-------|
| 1. Is the amount of future policy benefits and losses, and claims and losses separately disclosed in the balance sheet? | _____ | _____ | _____ |
| 2. Is the amount of unearned premiums separately disclosed in the balance sheet? | _____ | _____ | _____ |
| 3. Are other policy claims and benefits payable separately disclosed in the balance sheet? | _____ | _____ | _____ |
| 4. Do the notes disclose the basis of assumptions (interest rates, mortality, withdrawals) for future policy benefits and claims and settlements stated at present value? | _____ | _____ | _____ |
| 5. Do the notes disclose the general nature of reinsurance transactions, including a description of significant types of reinsurance agreements executed? | _____ | _____ | _____ |
| a. Do the disclosures include the nature of the contingent liability in connection with insurance ceded? | _____ | _____ | _____ |
| b. Do the disclosures include the nature and effect of material nonrecurring reinsurance transactions? | _____ | _____ | _____ |
| 6. If the entity has not yet adopted SFAS 106 have the following disclosures been considered? | | | |
| a. A brief description of SFAS 106, the date that adoption is required and the date that the entity plans to adopt (if earlier). | _____ | _____ | _____ |
| b. A discussion of the methods of adoption allowed by SFAS 106 and the method expected to be utilized by the entity, if determined. | _____ | _____ | _____ |
| c. A discussion of the impact that adoption of SFAS 106 is expected to have on the financial statements of the entity, unless not known or reasonably estimable. In that case, a statement to that effect may be made. | _____ | _____ | _____ |

YES NO N/A

- d. Disclosure of the potential impact of other significant matters that the entity believes might result from the adoption of SFAS 106 (such as technical violations of debt covenant agreements, planned or intended changes in business practices).
- M. Other Policyholders' Funds (Reg. S-X, Rule 7-03-14)
1. Does the caption include the aggregate amount of supplementary contracts without life contingencies, policyholders' dividend accumulations, undistributed earnings on participating policies, dividends to policyholders and retrospective return premiums and similar items?
2. Is there separate disclosure in the balance sheet or in the notes of any item the amount of which is in excess of 5% of total liabilities?
3. Do the notes disclose the relative significance of participating insurance as a percentage of (1) insurance in force and (2) premium income?
- a. Do the notes disclose the method by which earnings and dividends allocable to such insurance is determined?
- N. Other Liabilities (Reg. S-X, Rule 7-03-15)
1. Is there separate disclosure in the balance sheet or in the notes of any item the amount of which is in excess of 5% of total liabilities?
2. Is there separate disclosure in the balance sheet or in the notes of (1) income taxes currently payable and (2) deferred income taxes?
- a. Is there separate disclosure of the amount of deferred income taxes applicable to unrealized appreciation of equity securities?

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
O. Notes Payable, Bonds, Mortgages and Similar Obligations, Including Capitalized Leases (Reg. S-X, Rule 7-03-16)			
1. Is the amount of short-term debt separately disclosed?	___	___	___
a. If the aggregate of short-term borrowings (from banks, factors and other financial institutions and commercial paper issued) exceeds 5% of total liabilities, do the notes disclose the amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing? (Reg. S-X, Rule 5-02-19(b))	___	___	___
b. Is the amount of the lines of credit that support commercial paper borrowing arrangements separately identified? (Reg. S-X, Rule 5-01-19(b))	___	___	___
2. Is the amount of long-term debt including capitalized leases separately disclosed?	___	___	___
a. Is there disclosure of the general character of each type of debt?	___	___	___
b. Is the interest rate disclosed?	___	___	___
c. Is the maturity date or, if maturing serially, a brief indication of the serial maturities disclosed?	___	___	___
d. If the payment of principal or interest is contingent, is there appropriate indication of such contingency?	___	___	___
e. Is there a brief indication of priority?	___	___	___
f. If convertible, is the basis disclosed? (Reg. S-X, Rule 5-02-22)	___	___	___
P. Indebtedness to Related Parties (Reg. S-X, Rules 7-03-17 and 4-08(k))			
1. Are related-party transactions identified and the amount stated on the face of the balance			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
sheet, income statement or statement of cash flows?	—	—	—
2. If there are separate financial statements for the registrant, certain investees or subsidiaries, is there separate disclosure of the amounts in the related consolidated statements that are:			
a. Eliminated?	—	—	—
b. Not eliminated?	—	—	—
3. If any intercompany profit or losses resulting from transactions with related parties are not eliminated, are the effects disclosed?	—	—	—
Q. Liabilities Related to Separate Accounts (Reg. S-X, Rule 7-03-18)			
1. Is the amount disclosed?	—	—	—
R. Commitments and Contingent Liabilities (Reg. S-X, Rule 7-03-19)			
1. Have the proper disclosures been made?	—	—	—
S. Minority Interest in Consolidated Subsidiaries (Reg. S-X, Rule 7-03-20 and Rule 5-02-27)			
1. Do the notes disclose the amounts represented by preferred stock and the applicable dividend requirements?	—	—	—
T. Preferred Stock Subject to Mandatory Redemption (Reg. S-X, Rule 7-03-21 and Rule 5-02-28)			
1. Is the title of each issue, the carrying amount and redemption amount stated on the balance sheet?	—	—	—
2. Is the dollar amount of any shares subscribed but unissued shown together with the deduction of subscriptions receivable?	—	—	—
3. If the carrying value is different from the redemption amount, is there a description of the accounting treatment for such difference?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Is there disclosure, for each issue, of the number of shares authorized, issued and outstanding?	—	—	—
U. Nonredeemable Preferred Stock (Reg. S-X, Rule 7-03-22 and Rule 5-02-29)			
1. Is the title of each issue and the carrying amount disclosed on the balance sheet or in the notes?	—	—	—
2. Is the dollar amount of any shares subscribed but unissued shown together with the deduction of subscriptions receivable?	—	—	—
3. Is there disclosure, for each issue, of the number of shares authorized, issued and outstanding?	—	—	—
4. Is there disclosure in a note or in a separate statement of the changes in each class of preferred stock for which an income statement is required to be filed?	—	—	—
V. Common Stock (Reg. S-X, Rule 7-03-23 and Rule 5-02-30)			
1. Does the face of the balance sheet disclose the number of shares issued and outstanding?	—	—	—
2. If convertible, is that fact indicated on the face of the balance sheet?	—	—	—
3. Is there disclosure, for each class of common stock, of the title of each issue, the number of shares authorized and the basis of conversion?	—	—	—
4. Is the dollar amount of any shares subscribed but unissued shown together with the deduction of subscriptions receivable?	—	—	—
5. Do the notes or a separate statement disclose the changes in each class of common stock for which an income statement is required to be filed?	—	—	—

YES NO N/A

W. Other Stockholders' Equity (Reg. S-X, Rule 7-03-24, Rules 5-02-31(b) and (c))

1. Are separate captions shown for:

- | | | | |
|--|-------|-------|-------|
| a. Additional paid-in capital? | _____ | _____ | _____ |
| b. Other additional capital? | _____ | _____ | _____ |
| c. Unrealized appreciation or depreciation of equity securities less applicable deferred income taxes? | _____ | _____ | _____ |
| d. Appropriated retained earnings? | _____ | _____ | _____ |
| e. Unappropriated retained earnings? | _____ | _____ | _____ |

- | | | | |
|---|-------|-------|-------|
| 2. If there has been a quasi-reorganization in the last 10 years, has the retained earnings account been dated? | _____ | _____ | _____ |
|---|-------|-------|-------|

- | | | | |
|---|-------|-------|-------|
| 3. Do the notes disclose, for each life insurance and property and liability legal entity, the amount of statutory stockholders' equity as of the date of each balance sheet presented? | _____ | _____ | _____ |
|---|-------|-------|-------|

- | | | | |
|--|-------|-------|-------|
| 4. Is there disclosure of the amount of statutory net income or loss for each period for which an income statement is presented? | _____ | _____ | _____ |
|--|-------|-------|-------|

Income Statement

A. Premiums (Reg. S-X, Rule 7-04-1)

- | | | | |
|---|-------|-------|-------|
| 1. Do the amounts included in this caption represent premiums earned? | _____ | _____ | _____ |
|---|-------|-------|-------|

B. Net Investment Income (Reg. S-X, Rule 7-04-2)

- | | | | |
|--|-------|-------|-------|
| 1. Do the notes disclose the amount of investment income for each category of investment listed in the balance sheet above that exceeds 5% of total investment income? | _____ | _____ | _____ |
| 2. Do the notes disclose total investment income? | _____ | _____ | _____ |
| 3. Do the notes disclose applicable investment expenses? | _____ | _____ | _____ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Do the notes disclose net investment income?	___	___	___
C. Other Income (Reg. S-X, Rule 7-04-3)			
1. Are items in excess of 5% of total revenue separately disclosed?	___	___	___
D. Benefits, Claims, Losses and Settlement Expenses (Reg. S-X, Rule 7-04-4)			
1. Have the amounts been disclosed?	___	___	___
E. Policyholders' Share of Earnings on Participating Policies, Dividends and Similar Items [Reg. S-X, Rules 7.04-5 and 7-03-14(b)]			
1. Have the amounts been disclosed?	___	___	___
F. Underwriting, Acquisition and Insurance Expenses (Reg. S-X, Rule 7-04-6)			
1. Do the statements or notes disclose:			
a. The amount of deferred policy acquisition cost amortized to income for each period?	___	___	___
b. The amount of other operating expenses with separate disclosure of any material amounts?	___	___	___
G. Income Tax Expense [Reg. S-X, Rules 7-04-8 and 4-08(h)]			
1. Does the income statement or notes disclose:			
a. The domestic component of income (loss) before income tax expense (benefit)?	___	___	___
b. The foreign component of income (loss) before income tax expense (benefit)?	___	___	___
c. Taxes currently payable?	___	___	___
d. The net tax effects of timing differences?	___	___	___
2. Is there a reconciliation between the amount of reported total income tax expense (benefit) and the amount of tax computed at the applicable statutory federal income tax rate?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
H. Minority Interest in Income of Consolidated Subsidiaries (Reg. S-X, Rule 7-04-9)			
1. Are the amounts disclosed?	—	—	—
I. Equity in Earnings of Unconsolidated Subsidiaries and 50% or Less Owned Persons (Reg. S-X, Rule 7-04-10)			
1. Is the amount stated net of any applicable tax provision?	—	—	—
2. Are gains or losses on investments excluded?	—	—	—
3. Is the amount of dividends received disclosed?	—	—	—
J. Discontinued Operations (Reg. S-X, Rule 7-04-13)			
1. Is any amount separately reported?	—	—	—
K. Extraordinary Items, Less Applicable Tax (Reg. S-X, Rule 7-04-15)			
1. Is any amount separately reported?	—	—	—
L. Cumulative Effect of Changes in Accounting Principles (Reg. S-X, Rule 7-04-16)			
1. Is any amount separately reported?	—	—	—
M. Earnings Per Share Data (Reg. S-X, Rule 7-04-18)			
1. Have applicable amounts been reported?	—	—	—
N. Schedules (Reg. S-X, Rule 7-05)			
1. Was Schedule Number I—Summary of Investments Other Than Investments in Related Parties (refers to Rule 7-05(c) and Rule 12-15) filed for the most recent audited balance sheet?	—	—	—
2. Was Schedule Number II—Amounts Receivable From Related Parties, and Underwriters, Promoters, and Employees Other Than Related Parties (refers to Rule 7-05(c) and Rule 12-03) filed for each period for which an audited income statement is required?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Was Schedule III—Condensed Financial Information of Registrant (refers to Rule 7-05(c) and Rule 12-04) filed for the periods specified in the schedule?	—	—	—
4. Was Schedule IV—Indebtedness of and to Related Parties Not Current (refers to Rule 7-05(c) and Rule 12-05) filed for each period for which an audited income statement is required?	—	—	—
5. Was Schedule V—Supplementary Insurance Information (refers to Rule 7-05(c) and Rule 12-16) presented for each required balance sheet?	—	—	—
6. Was Schedule VI—Reinsurance (refers to Rule 7-05(c) and Rule 12-17) filed for each period for which an audited income statement is required?	—	—	—
7. Was Schedule VII—Guarantees of Securities of Other Issuers (refers to Rule 7-05(c) and Rule 12-08) filed for each period for which an audited income statement is required?	—	—	—
8. Was Schedule VIII—Valuation and Qualifying Accounts (refers to Rule 7-05(c) and Rule 12-09) filed for each period for which an audited income statement is required?	—	—	—
9. Was Schedule IX—Short-term Borrowings (refers to Rule 7-05(c) and Rule 12-10) filed for each period for which an audited income statement is required?	—	—	—
10. Was Schedule X—Supplemental Information Concerning Property Casualty Insurance Operations (refers to Rule 7-05(c) and Rule 12-18) filed for the periods specified in the schedule?	—	—	—

Illustrative Financial Statements

ILLUSTRATIVE LIFE INSURANCE COMPANY FINANCIAL STATEMENTS

The following report and set of financial statements illustrates one form of currently acceptable practice and, as indicated, does not include all disclosures required under generally accepted accounting principles. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
ABC Life Insurance Company
Anytown, U.S.A.

We have audited the accompanying balance sheets of ABC Life Insurance Company as of December 31, 199X and 199Y, and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Life Insurance Company as of December 31, 199X and 199Y, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

[Signature]

Office Town, U.S.A.
January 15, 199Z

ABC LIFE INSURANCE COMPANY
BALANCE SHEETS
December 31, 199X and 199Y

ASSETS	<u>199X</u>	<u>199Y</u>
Investments and cash:		
Fixed maturities, at amortized cost:	\$	\$
Bonds (market value \$. and \$.)
Redeemable preferred stocks (market value \$. and \$.)
Equity securities, at market:		
Common stocks (cost \$. and \$.)
Non-redeemable preferred stock (cost \$. and \$.)
Mortgage loans on real estate
Policy loans
Real estate, at cost (net of accumulated depreciation of \$. and \$.)
Investment in affiliated companies (state basis)
Other invested assets
Short-term investments
Cash
Total investments and cash	<u>.....</u>	<u>.....</u>
Accrued investment income
Premiums due and other receivables (net of \$. and \$. allowance for doubtful accounts)
Deferred acquisition costs
Deferred income taxes
Property and equipment, at cost (net of accumulated depreciation of \$. and \$.)
Other assets
Separate account assets
Total assets	<u><u>\$</u></u>	<u><u>\$</u></u>

The accompanying notes are an integral part of these financial statements.

ABC LIFE INSURANCE COMPANY
BALANCE SHEETS
December 31, 199X and 199Y

LIABILITIES	<u>199X</u>	<u>199Y</u>
Future policy benefits:		
Life and annuity	\$	\$
Accident and health
Other
Unpaid claims and claim expenses
Policyholders' deposits
Other policyholders' funds
Unearned premiums
Dividends payable to stockholders
Accrued expenses
Federal and foreign income taxes payable
Short-term debt
Long-term debt
Participating policyholders' interests
Separate account liabilities	<u>.....</u>	<u>.....</u>
 Total liabilities	 <u>.....</u>	 <u>.....</u>
 Commitments and Contingencies (Note 9)		
 STOCKHOLDERS' EQUITY		
Capital stock—authorized shares of \$.		
par value and shares issued, outstanding
Additional paid-in capital
Net unrealized capital gains
Retained earnings		
Treasury stock, at cost (..... and shares)	<u>.....</u>	<u>.....</u>
Total stockholders' equity	<u>.....</u>	<u>.....</u>
Total liabilities and stockholders' equity	<u><u>\$</u></u>	<u><u>\$</u></u>

ABC LIFE INSURANCE COMPANY
STATEMENTS OF INCOME
For the Years Ended December 31, 199X and 199Y

Revenue:	<u>199X</u>	<u>199Y</u>
Premiums:		
Life and annuity	\$	\$
Accident and health
Other
Net investment income
Net realized capital gains and losses
	<u>.....</u>	<u>.....</u>
Benefits and expenses:
Life and annuity benefits
Accident and health benefits
Increase (decrease) in liability for future policy benefits
Other (detailed as appropriate)
Decrease (increase) in deferred acquisition costs
Provision for policyholders' share of earnings on participating business
	<u>.....</u>	<u>.....</u>
Equity in income (loss) of unconsolidated affiliates, net of related income taxes of \$.
Income before income taxes and extraordinary gain (loss)
Provision for income taxes:		
Current
Deferred
	<u>.....</u>	<u>.....</u>
Income before extraordinary gain (loss)
Extraordinary gain (loss)
Net income	<u><u>\$</u></u>	<u><u>\$</u></u>
Per share:		
Income before extraordinary gain (loss)	\$	\$
Extraordinary gain (loss)
Net income	<u><u>\$</u></u>	<u><u>\$</u></u>

The accompanying notes are an integral part of these financial statements.

ABC LIFE INSURANCE COMPANY
STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 199X and 199Y

	<u>199X</u>	<u>199Y</u>
Stockholders' equity, beginning of year	\$	\$
Capital stock:		
Gain (loss) on issuance of treasury stock
Additional paid-in capital:		
Excess (deficit) of proceeds over (under) par value or cost of capital stock issued
Net change in unrealized capital gains and losses
Retained earnings:		
Net income
Dividends to stockholders declared
Treasury stock:		
Acquired during year
Issued for benefit plans	<u>.....</u>	<u>.....</u>
Stockholders' equity, end of year	<u><u>\$</u></u>	<u><u>\$</u></u>

The accompanying notes are an integral part of these financial statements.

ABC LIFE INSURANCE COMPANY
Statements of Cash Flows
For the Years Ended December 31, 199X and 199Y

Cash flows from operating activities:	<u>199X</u>	<u>199Y</u>
Net income	\$	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in accrued investment income
Decrease (increase) in premiums due and other receivables
Decrease (increase) in deferred acquisition costs
Decrease (increase) in federal and foreign income taxes
Increase (decrease) in future policy benefits
Increase (decrease) in unpaid claims and claim expenses
Increase (decrease) in policyholders' deposits
Increase (decrease) in other policyholders' funds
Other—net
Net cash provided by (used for) operating activities
Cash flows from investing activities:		
Proceeds from sales of fixed maturities
Proceeds from maturities of fixed maturities
Proceeds from sales of equity securities
Cost of fixed maturities purchased
Cost of equity securities purchased
Net (increase) decrease in short-term assets
Other, net
Net cash provided by (used for) investing activities
Cash flows from financing activities:		
Issuance of stock
Issuance of long-term debt
Payments of long-term debt
Payments of short-term debt
Dividends paid to stockholders
Cost of treasury stock purchased
Other, net
Net cash provided by (used for) financing activities
Net increase (decrease) in cash and equivalents
Cash and cash equivalents, beginning of year
Cash and equivalents, end of year	<u><u>\$</u></u>	<u><u>\$</u></u>

The accompanying notes are an integral part of these financial statements.

ABC LIFE INSURANCE COMPANY

Notes to Financial Statements

1. Significant Accounting Policies

- a) **Insurance premium revenues:** Traditional life premiums are generally recognized as earned on a pro rata basis over the contract period. Benefits and expenses are charged against the premiums to recognize profits over the estimated lives of the policies. Revenues on universal life and investment-type products consist of policy charges against policyholders' funds for the cost of insurance, administration, surrender charges, actuarial margin and other fees. Expenses include interest credited to policy account balances and benefits paid in excess of policy account balances.
- b) **Investments:** Fixed maturities investments, which consist of bonds and redeemable preferred stocks, are generally carried at amortized cost when it is the intent to hold to maturity. Where fixed maturity investments are held for trading purposes, they are carried at market values. Common and other preferred stocks are carried at market values. Unrealized gains and losses on investments carried at market value, net of related taxes are reflected in stockholders' equity. Provisions for impairments that are other than temporary are included in net realized capital gains and losses. Realized capital gains and losses are determined by specific identification.
- c) **Cash equivalents:** Highly liquid investments with an original maturity of three months or less are classified as cash equivalents.
- d) **Unpaid insurance losses and loss adjustment expenses:** Unpaid losses are determined using case and case development estimates for reported claims and estimates based on experience and expected loss development for unreported claims. Unpaid loss adjustment expenses are estimated based on experience and expected future emergence. The process of estimating loss reserves is necessarily imperfect and involves an evaluation of several variables, such as claim frequency and severity as well as social and economic conditions. Consequently, there can be no assurance that the ultimate liability will not exceed amounts reserved.
- e) **Deferred acquisition costs:** Policy acquisition costs, consisting of commissions, premium taxes and certain underwriting expenses, are deferred and amortized ratably over the terms of the related policies. The method followed in computing deferred policy acquisition costs limits the amount of such costs to their estimated realizable value. To determine estimated realized value, the computation gives effect to the premium to be earned, related investment income, losses, loss adjustment expenses and certain other costs expected to be incurred as the premium is earned. Amortization of deferred policy acquisition costs was \$X million in 199X and \$X million in 199Y.
- f) **Property, equipment, and real estate:** Property, equipment, and real estate are reported at depreciated cost using the straight-line method of depreciation over their estimated useful lives.
- g) **Separate accounts:** Separate account assets and liabilities generally represent funds maintained in accounts to meet specific investment objectives of policyholders who bear the investment risk. Investment income and investment gains and losses accrue directly to such policyholders. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. The assets and liabilities are carried at market value. Deposits, net investment income, and realized and unrealized capital gains and losses on separate account assets are not reflected in the statements of income of the Company.
- h) **Income taxes:** Deferred income taxes have been provided for temporary differences between income tax and financial statement recognition of revenues and expenses.
- i) **Reclassification:** Certain prior year amounts have been reclassified to conform to the 199X presentation.

- j) **Future application of accounting standards:** In 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" (FASB 106). This standard requires that employers accrue the costs and recognize the liability for various post-retirement benefits, principally healthcare benefits. The effective date of FASB 106 is fiscal year 1993. Upon adoption, the transition obligation may be immediately recognized or amortized over twenty years. The Company has not decided when it will adopt FASB 106 or how it will account for the transition obligations upon adoption. The adoption of FASB 106 is expected to have a significant impact on net income in the year of adoption.

In 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (FASB 109). This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for accounting and reporting for income taxes. FASB 109 is effective for fiscal year 1993. Upon adoption of FASB 109, earlier years presented may be restated or the cumulative effect upon adoption may be presented in the year of adoption. The Company has not decided when it will adopt FASB 109 or how it will account for its implementation.

2. Investments

a) Net investment income and realized and unrealized gains and losses of investments

Revenues in the accompanying statements of income include net investment income from the following sources:

(In millions)	199X	199Y
Investment income	\$	\$
Fixed maturities
Equity securities
Short-term investments
Other
Investment expenses
Net investment income	<u>\$</u>	<u>\$</u>

b) Realized and unrealized gains and losses are as follows:

	199X	199Y
Realized:		
Fixed maturities	\$	\$
Equity securities
Realized gains
Fixed maturities
Equity securities
Other
Realized (losses)
Net realized gains before income taxes
Income tax expense
Net realized gains	<u>\$</u>	<u>\$</u>
Unrealized:		
Fixed maturities	\$	\$
Equity securities
Change in net unrealized gains (losses) before income taxes
Income tax (expense) benefit
Change in net unrealized gains (losses)	<u>\$</u>	<u>\$</u>

Net unrealized gains (losses) on equity securities before income taxes reflect unrealized losses of \$X and unrealized gains of \$X at December 31, 199X and unrealized losses of \$X and unrealized gains of \$X at December 31, 199Y.

- c) The amortized cost and estimated market values of investments in fixed maturities carried at amortized cost at December 31, 199X are as follows:

	<i>Amortized Cost</i>	<i>Gross Realized Gains</i>	<i>Gross Unrealized Gains</i>	<i>Gross Realized Losses</i>	<i>Gross Unrealized Losses</i>	<i>Estimated Market Value</i>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$XXXXXX	\$XXX	\$XXX	\$(XXX)	\$(XXX)	\$XXXXXX
Obligations of states and political subdivisions	XXXXXX	XXX	XXX	(XXX)	(XXX)	XXXXXX
Debt securities issued by foreign governments	XXXXXX	XXX	XXX	(XXX)	(XXX)	XXXXXX
Corporate securities	XXXXXX	XXX	XXX	(XXX)	(XXX)	XXXXXX
Mortgage-backed securities	XXXXXX	XXX	XXX	(XXX)	(XXX)	XXXXXX
Other debt securities	XXXXXX	XXX	XXX	(XXX)	(XXX)	XXXXXX
Totals	<u>\$XXXXXX</u>	<u>\$XXX</u>	<u>\$XXX</u>	<u>\$(XXX)</u>	<u>\$(XXX)</u>	<u>\$XXXXXX</u>

The amortized cost and estimated market value of debt securities at December 31, 199X, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<i>Amortized Cost</i>	<i>Estimated Market Value</i>
Due in one year or less	\$ XXX	\$ XXX
Due after one year through five years	XXX	XXX
Due after five years through ten years	XXX	XXX
Due after ten years	XXX	XXX
	<u>XXXX</u>	<u>XXXX</u>
Mortgage-backed securities	XXX	XXX
	<u>\$XXXXX</u>	<u>\$XXXXX</u>

3. Income Taxes

Income tax expense (benefit) includes the following:

	<u>199X</u>	<u>199Y</u>
Tax expense (benefit) on operating income	\$	\$
Tax expense on gains on sales of securities
	<u>\$</u>	<u>\$</u>

The components of pretax income and the difference between income taxes computed at the statutory federal rate (34% in 199X and 40% in 199Y) and the provision for income taxes follow:

	<u>199X</u>	<u>199Y</u>
Pretax income:		
Operating income	\$	\$
Gains on sales of securities
	<u>\$</u>	<u>\$</u>
Tax expense (benefit):		
Tax at statutory federal rate	\$	\$
"Fresh start" adjustment
Tax-free interest and dividends received deduction
Financial statement alternative minimum tax
Other, net
	<u>\$</u>	<u>\$</u>

The current and deferred components of income tax expense (benefit) are as follows:

	<u>199X</u>	<u>199Y</u>
Current:		
Federal	\$	\$
State
	<u>.....</u>	<u>.....</u>
Deferred (primarily federal):		
Loss reserves discounted
Unearned premiums
Incentive compensation
Policy acquisition costs (deferred) recognized
Capital gains (recognized) deferred
Accounting operating loss deferred (recognized)
Financial statement alternative minimum tax
Internal Revenue Service interest, net of tax
Statutory reserves recognized
Pension plan
Restructuring reserve recognized
Other, net
	<u>.....</u>	<u>.....</u>
	<u>\$</u>	<u>\$</u>

The Company paid income taxes of \$X in 199X and \$X in 199Y.

4. Future Policy Benefits

The liability for future policy benefits has been established based upon the following assumptions:

- a) Interest rates vary by territory and year of issue and range from X% to X%.
- b) Mortality, morbidity, and withdrawal rate assumptions are based on actual experience and are periodically reviewed against industry standards and experience.

5. Long-term Debt

Indebtedness at December 31 consists of the following:

	<u>199X</u>	<u>199Y</u>
Notes payable to banks under term loan agreement due through 199A, interest rate 10.50%	\$	\$
Notes payable to banks under revolving credit agreement, interest rate 8.75%
Notes payable to banks under uncommitted short-term credit arrangements, average interest rate 10.16% in 199X and 8.05% in 199Y
11¾% sinking fund debentures, net of unamortized discount of \$X
Note payable to bank by Leveraged Employee Stock Ownership Trust, interest rate 9.24% in 199X and 7.35% in 199Y, guaranteed by the Company
14⅞% senior subordinated notes, net of unamortized discount of \$X
	<u>\$</u>	<u>\$</u>

The Company's debt instruments contain various restrictions including provisions limiting future investments, payment of cash dividends and conditions precedent to the issuance of additional indebtedness. At December 31, 199X, under the most restrictive provision of these agreements, consolidated retained earnings of \$X was available for payment of cash dividends.

The aggregate maturities of corporate indebtedness, assuming that existing credit arrangements are not extended or replaced, during each of the next five years are: 199Z, \$X; 199B, \$X; 199C, \$X; 199D, \$X; and 199E, \$X.

The Company made interest payments of \$X in 199X, and \$X in 199Y.

6. Stockholders' Equity

Under the law of (State), the state of incorporation, the maximum dividend that may be paid (without prior approval of the (State) Insurance Department), in any 12-month period is the greater of (i) net investment income for the preceding calendar year or (ii) 10% of policyholders' surplus at the end of the preceding calendar year. In general, net investment income for dividend purposes is interpreted by the Insurance Department to be the statutory pretax net investment income including net realized capital losses but excluding net realized capital gains. The maximum permissible amount of dividends for 199Z, based on statutory net investment income for 199X, is \$X.

The accounting practices of insurance companies are prescribed by certain regulatory authorities. Certain of these practices differ from the generally accepted principles used in preparing the financial statements of the Company.

Policyholders' surplus determined in accordance with statutory practices was \$X and \$X, in 199X and 199Y, respectively. The reported statutory net income was \$X in 199X, and \$X in 199Y.

7. Reinsurance

The Company assumes reinsurance from and cedes insurance to other insurers and reinsurers under various contracts which cover individual risks or entire classes of business. Reinsurance is assumed and ceded under both pro rata and excess of loss contracts. These reinsurance arrangements provide greater diversification of business and minimize losses arising from large risks or from hazards of an unusual nature. Although the ceding of insurance does not discharge the original insurer from its primary liability to its policyholder, the insurance company

that assumes the coverage assumes the related liability, and it is the practice of insurers for accounting purposes to treat insured risks, to the extent of reinsurance ceded, as though they were risks for which the original insurer is not liable.

Selected reinsurance information follows:

	<u>199X</u>	<u>199Y</u>
Earned premiums:		
Assumed	\$	\$
Ceded
Liability reduction on ceded reinsurance:		
Unpaid losses and loss adjustment expenses
Unearned premiums	<u>\$</u>	<u>\$</u>

8. Pension Plans

The Company has several non-contributory defined benefit pension plans covering substantially all employees. Pension benefits are generally based on years of service and compensation during the last five years of employment. The Company's funding policy is to contribute annually amounts at least equal to the minimum funding requirements of the Employment Retirement Income Security Act of 1974.

The components of pension expense follow:

	<u>199X</u>	<u>199Y</u>
Service cost of current period	\$	\$
Interest cost of projected benefit obligation
Actual return on plan assets
Net amortization and deferral
	<u>\$</u>	<u>\$</u>

The following table summarizes the plans' funded status, the amounts recognized in the balance sheet at December 31, and the major assumptions used to determine these amounts.

	<u>199X</u>	<u>199Y</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligations, including vested benefits of \$X in 199X and \$X in 199Y	<u>\$</u>	<u>\$</u>
Projected benefit obligation for service rendered to date	\$	\$
Plan assets at fair value
Projected benefit obligation in excess of plan assets
Unrecognized net gain from past experience different from that assumed
Accrued pension costs	<u>\$</u>	<u>\$</u>
Major assumptions:		
Discount rate
Rate of increase in future compensation
Long-term rate of return on plan assets
	<u>\$</u>	<u>\$</u>

Plan assets are invested in a diversified portfolio that primarily consists of debt and equity securities.

9. Commitments and Contingencies

Future minimum rental payments, principally for administrative offices, under noncancellable operating leases at December 31, 199X, are: 199Z, \$X; 199A, \$X; 199B, \$X; 199C, \$X; 199D, \$X; and \$XX thereafter.

Rental expense was \$X in 199X, and \$X in 199Y.

ILLUSTRATIVE LIFE INSURANCE COMPANY FINANCIAL STATEMENTS

The following are some additional disclosures not included in the illustrative stock life insurance financial statements but could be found in typical insurance companies' statements.

- Accounting treatment of various noninsurance subsidiaries
- Acquisition/Sale of subsidiaries
- Basis of Presentation—GAAP or SAP
- Goodwill
- Intangible assets
- Interim financial information
- Investments in subsidiaries
- Investment tax credits
- Litigation
- New Statements of Financial Accounting standards issued but not required to be adopted
- Nonadmitted assets
- Off-balance-sheet risk disclosures
- Parent company information
- Restricted investments
- Segment information
- Subsequent events

The AICPA Insurance Committee has on its agenda or has recently issued the following guidance concerning the insurance industry:

On Agenda:

1. Industry Audit Guide, "Audits of Life Insurance Companies"

Issued:

1. Auditing Interpretation of AU Section 623 "Special Reports"—Evaluation of the Appropriateness of Informative Disclosures in Insurance Enterprises' Financial Statements Prepared on a Statutory Basis
2. Practice Bulletin 8, "Implementation of FASB Statement No. 97. . ."
3. Industry Audit Risk Alert for Life and Health Industry Developments—1991
4. Practice Bulletin 9 "Disclosures of Fronting Arrangements by Fronting Companies"
5. Statement of Position 92-8 "Auditing Property/Casualty Insurance Entities' Statutory Financial Statements"—Applying Certain Requirements of the NAIC Annual Statement Instructions

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